BASIC FARM ACCOUNTING

Presented by: Peggy Hall, Legacy Accounting and Software Training

Sponsored by:

KCAA (Kitsap Community and Agricultural Alliance)

WSU Regional Small Farms Program
AGENDA

- Introductions
- The Workshop
  - Why bother tracking Income and Expenses?
  - The Financial Statements:
    - Income Statement
    - Statement of Cash Flows
    - Balance Sheet
- Basic Accounting Concepts
  - The Accounting Equation
  - Cash vs. Accrual Accounting
  - Current vs Long Term
  - Expenses vs Capital transactions
- Developing a Bookkeeping System - spreadsheets vs. an accounting program
- Pricing, Budgeting, and Forecasting for Profitability
- Q & A and Survey
WHY BOTHER TRACKING INCOME AND EXPENSES?

- Know how profitable your business has been
- Aid in securing business loans and grants
- Avoid cash crisis
- Makes preparing tax returns so much easier
- Aid in achieving financial goals
KEYS FOR BECOMING FINANCIALLY SUSTAINABLE

1. Understand Basic Accounting
2. Develop a system to track your expenses
3. Track and Measure your progress
4. Plan for growth and profit
INCOME STATEMENT — SUMMARIZES OPERATING REVENUE AND EXPENSES

Revenue
- Net Sales

COGS
- Seeds/Seedling
- Produce or other products for Resale

Operating Expenses
- Direct Operating
- Labor
- Occupancy
- G&A
- Repairs and Maintenance
- Income Taxes

Operating Income = Revenue – Expenses

Other Income & Expense

Net Income = Operating Income + Other Income/Expenses
STATEMENT OF CASH FLOWS

Cash Flow from Operations
  Inflow – Sale Revenue
  Outflow – Operating Expenses

Cash Flow from Investments
  Inflows – Sale of Equipment, Land or other Assets (ELA)
  Outflow – Purchase of ELA

Cash Flow from Financing
  Inflows – Cash received from loans, grants or investors
  Outflow – Repayment of loans

Net Income ➔ Cash Flow
THE BALANCE SHEET (ACCOUNTING) EQUATION

Assets = Liabilities + Owner’s Equity (Capital)
Assets – Liabilities = Owner’s Equity (Capital)
“have” - “owe” = “what you are worth”

Assets – something that you own – Cash, Inventory, equipment, land, buildings, vehicles, livestock, accounts receivable (AR)

Liabilities – what you owe to others – loans, credit cards, accounts payable (AP)

Owner’s Equity (Capital) – your ownership in the business, past years retained earning, owner contributions/capital, investor capital
## Expanded Accounting Equation

<table>
<thead>
<tr>
<th>Debit normal balance</th>
<th>Credit normal balance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Left side</strong></td>
<td><strong>Right Side</strong></td>
</tr>
<tr>
<td>Assets</td>
<td>Liabilities + Owner’s Equity (Capital)</td>
</tr>
<tr>
<td>Assets</td>
<td>Liabilities + Net Income (Income – Expenses) + Capital</td>
</tr>
<tr>
<td>Assets</td>
<td>Liabilities + (Income – Expenses) + Capital</td>
</tr>
<tr>
<td>Assets + Expenses</td>
<td>Liabilities + Income + Capital</td>
</tr>
</tbody>
</table>

A – Assets

L – Liabilities

I – Income

C – Capital

E – Expenses`
CURRENT VS LONG TERM

- **Assets**
  - Current – highly liquid, can be converted to cash quickly
  - Fixed Assets – equipment, vehicles, land

- **Liabilities**
  - Current – short term, up to 1 year
    - Accounts payable
    - Short term loans
  - Long Term – over 1 year
    - Loans
    - Credit Cards
CASH VS. ACCRUAL ACCOUNTING

- **Cash Basis** – revenue and expenses are recorded when cash is received or expenses is paid
  - No AP/AR
  - If you sell CSA shares, all money is received and recorded early in the year, but expenses related to the income are incurred later

- **Accrual Basis**
  - Record revenue when earned and expenses when incurred
  - Better matches expenses with revenues (Matching Principle)
Operating Expenses – Short lived, inexpensive improvements
  • Hand tools
  • Animal feed
  • Fixing fences

Capital Expenses – Long lived, life extending improvements, possibly depreciated (expensed a little every year)
  • Greenhouses
  • Breeding stock
FIXED COST VS. VARIABLE COSTS

- Fixed Costs - Periodic charges do not vary
  - Insurance
  - Rent
  - Bank Fees

- Variable Costs – Expenses vary with production
  - Seeds/Seedlings
  - Animal Feed
  - Labor/Payroll
DEVELOPING A SYSTEM

See additional hanout
PRICING TO DETERMINE CROP PROFITABILITY

Cost of getting crops in the ground (by Acre)
- Seeds
- Seedlings
- Fertilizer/Amendments
- Stakes
- Labor – transplanting/planting/weeding

Getting the Crop to the Market (by case/pound)
- Packaging
- Labor – harvesting/packing
- Distribution
TOMATOES

Measurements

- Acreage Planted: 1 acre
- Yield: 34 cases = 25 lbs each per week
- Harvesting Season: 8 weeks

Conversions:

1 acre = 272 cases = 6,800 pounds
FIELD COSTS — SEASONAL/BY THE ACRE

Labor -
- Starting seed - $20
- Watering - $20
- Transplanting - $60
- Staking - $40
- Weeding - $40
Potting Soil/Trays - $100
Seeds - $60
Black Plastic/Amendments - $50
Total Cost per Acre: $3.90
Cost per case: $1.43
FIELD COSTS — BY THE CASE/POUND

Labor ($12 per hour)
- Harvesting – 15 minutes per case
- Sorting/Packaging – 10 minutes per case
- $5 per case

Supplies
- Packaging - $.60/case

Total by case cost - $5.60
PRICING STRATEGY

- Add all costs of production: per acres costs + per case/pound cost = base price
  - By Acre Cost - $1.43
  - By Case Cost - $5.60
  - Total base price = $7.03

- Do market research, compare your base price with competitors (other farmers markets, grocery store etc)

- Set yourself apart by showing your added value (i.e., organic certification)
DISTRIBUTION COSTS

Wholesale

- Calls to customers/place orders – 10 minutes
- Packaging for wholesale, loading truck – 10 minutes
- Delivery time – 40 minutes
- Fuel - $5
- Truck Expenses - ??

Total cost per delivery-market - $17 +
# Filling In the Numbers

Delivery of 1 case (based on $7.03 per case base price)

<table>
<thead>
<tr>
<th>Sale Price</th>
<th>$25.00</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Profit</td>
<td>$17.97 ($25.00-$7.03)</td>
</tr>
<tr>
<td>Delivery</td>
<td>$17.00</td>
</tr>
<tr>
<td>Profit</td>
<td>$.97</td>
</tr>
</tbody>
</table>

Delivery of 10 cases

<table>
<thead>
<tr>
<th>Sale Price</th>
<th>$250.00</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Profit</td>
<td>$179.70</td>
</tr>
<tr>
<td>Delivery</td>
<td>$17.00</td>
</tr>
<tr>
<td>Profit</td>
<td>$162.70</td>
</tr>
</tbody>
</table>
CREATING A BUDGET (PROJECTIONS)

- Review Previous Year, if this is your first year, use estimates
- Consider Changes for coming year (adding more livestock, growing more crops, expanding into another market)
- Outline
  - Revenue
  - Expenses
  - Capital Purchases
  - Financing
- Check Cash Flow at least monthly
- Adjust as Necessary
TROUBLESHOOTING PROFITABILITY & FORECASTING

- Revenue
  - Is it going up or down?
- COGS
  - Are you marking up resale items enough?
- Operating Expenses
  - What are the major expenses?
- Operating Profit
  - Is it positive?
- Other Income & Expenses
  - Are they driving losses?
THE END