



Department of  
Agriculture and Food



# Key to Financial Management Workshop

Supporting your success



## Agenda

- Mythbusting Financial Management reports
- Tools and Terminology
- Statement of Cash Flows
- Statement of Income
- Statement of Position
- Business Success – relationships are important



## Workshop Overview

- Practical application to your farming business
- Interactive workshop
- Help you understand the language of Financial Management
- Identify what is important for business success

*A successful business should provide the income to support the lifestyle you want, and the time for you to enjoy it.*

## Aims of the Workshop

### Understand the language around:

- Financial Management
- Application to the farm finances

### Understand the 3 key financial documents:

- Statement of Cash Flows
- Statement of Income
- Statement of Position



## Ground Rules

- Respect** – everyone's opinion
- Openness** – be honest in what you are thinking
- Participate** – be part of the process
- Experience** – help people sharing your own experiences
- Share the air** – give others a turn too

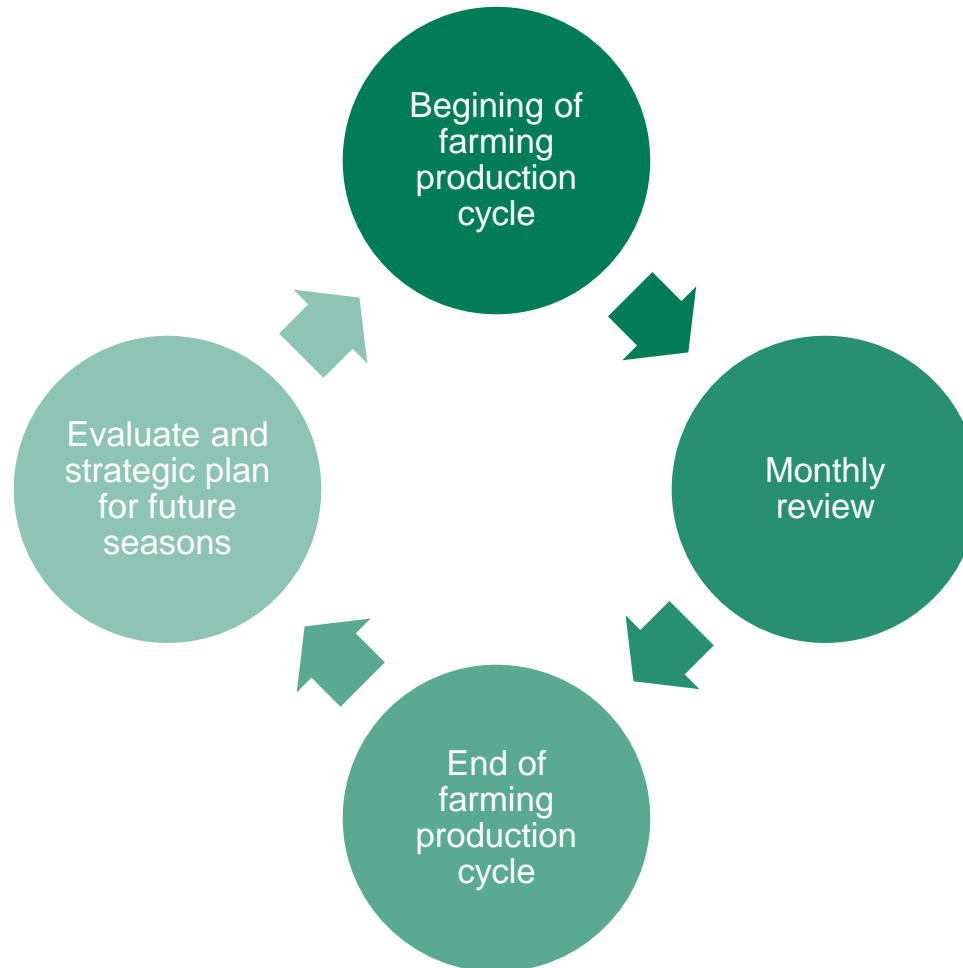


## Who is here today?

## Where have you come from?

## What type of farming do you do?

## The business of farming:





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## Key to Financial Management

**What are the  
Challenges  
that you face in your  
farming business?**

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# Key to Financial Management



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# Key to Financial Management



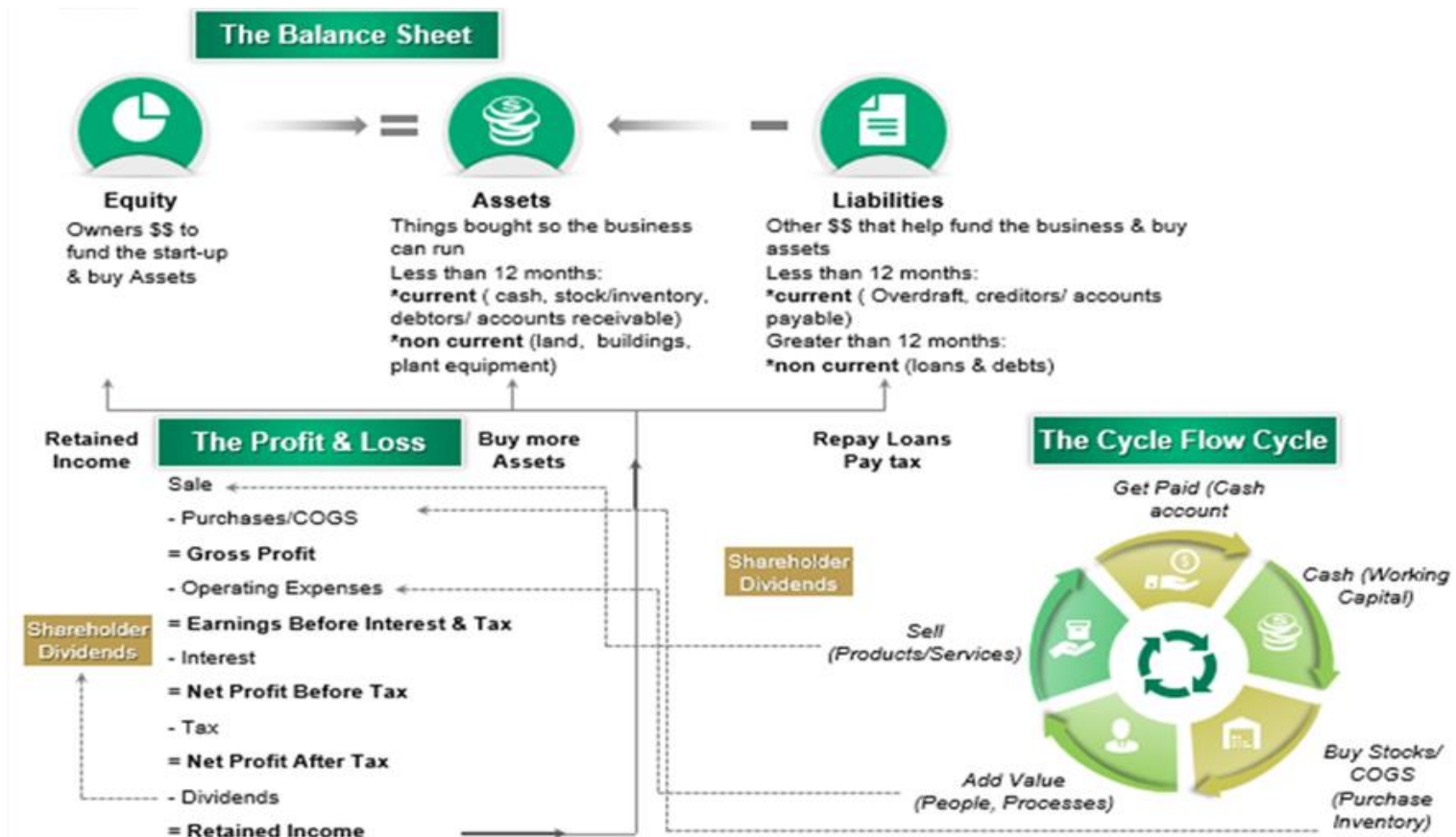
## Using the different reports

Type of Report	When and Why	How and What
<b>Statement of Cash flow</b>	<p>Annual Cash flow budget (1-3 year projection)</p> <p>Monitor monthly. Compare to Actuals</p>	Maintain cash book, budget to actual reporting
<b>Statement of Income</b>	<ol style="list-style-type: none"> <li>1. Business Management report – to match production year e.g. Feb to Jan</li> <li>2. Tax return – end of financial year (1 Jul – 30 Jun)</li> </ol>	<p>Adjust cash book to take into account non cash income and expenditure e.g. Crop income from warehouse grain, expenses not yet paid for e.g. contract harvest.</p> <p>Match income and expenditure to the production year</p>
<b>Statement of Position</b>	<ol style="list-style-type: none"> <li>1. Management report – annually at the start of the production year.</li> <li>2. Tax return – 30 June</li> </ol>	Record value of asset and liabilities at the date of the Statement of Position

# Key to Financial Management

Purpose	Business Management Accounting	Financial Accounting
<b>Users of the information</b>	Internal to the business	External to the business
<b>What for</b>	Provides information so management can operate the business more efficiently and measure performance	Used to prepare reports that form legal documents eg. Tax return, compliance with company law.
<b>How they are prepared</b>	Compiled with reference to the needs of the manager	Compiled with reference to Australian accounting standards
<b>Time frame</b>	To suit your management needs – usually align with a production cycle Eg Broadacre: Feb – Jan	Financial Year 1 July – 30 June
<b>Method of Accounting</b>	Usually Accrual	Cash or Accrual (discuss with accountant)
<b>Who prepares these for your business?</b>	You (.....) Farm management consultant (.....)	Accountant  (.....)

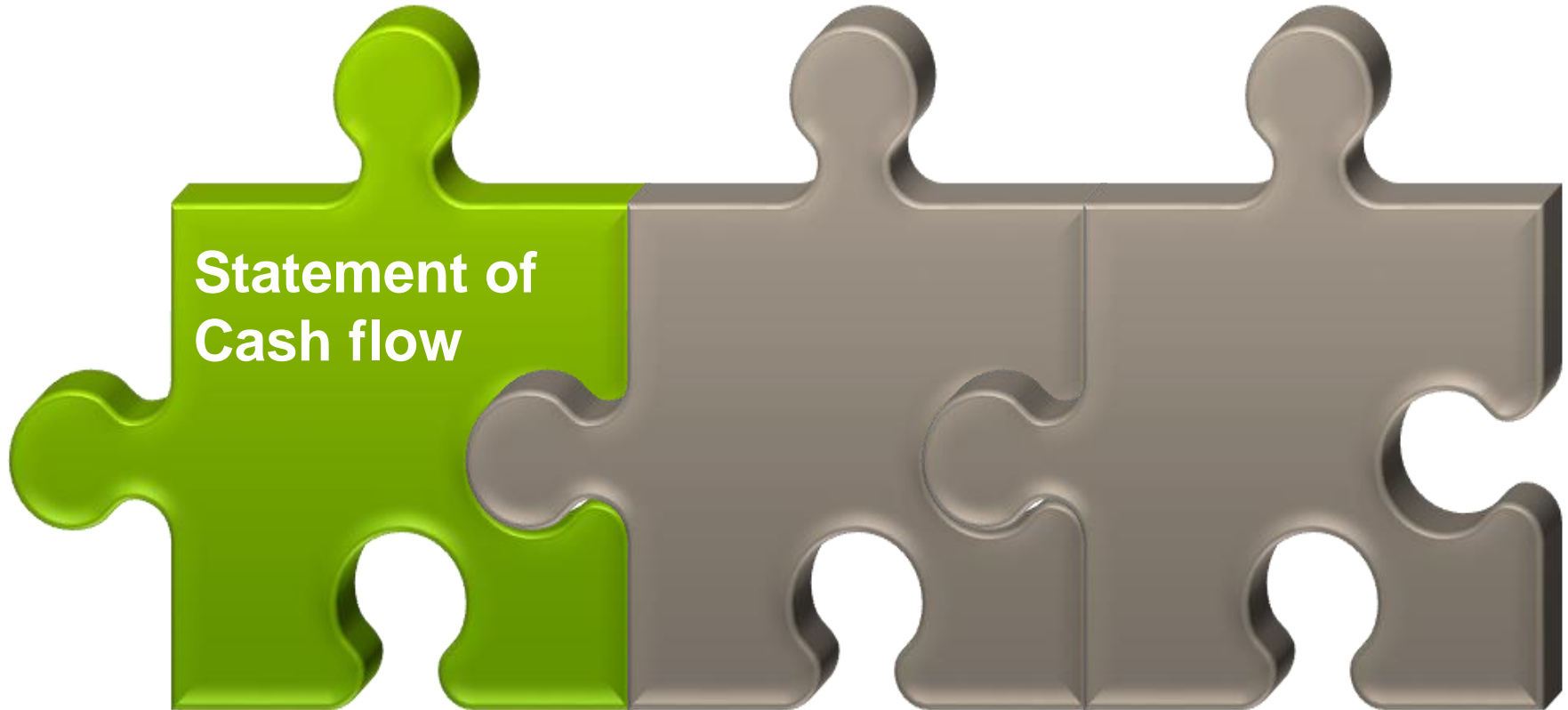
## Key Financial Management Reports





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# Statement of Cash flow



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## What is a Statement of Cash Flow?

- Amounts in dollars
- Liquidity – availability and timing of cash (in and out)
- Knowing when peak debt will occur

## Why prepare a Cash Flow Budget?

- Monitor business performance
- Created for a set period of time
- Generally for one year



Cash Flow IN



Cash Flow OUT



## Cash Flow Budget helps to

- Manage cash flow
- Signal if more finance is needed
- Be proactive – talk to the bank
- Timing of GST can affect cash flow

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## Types of cash flow

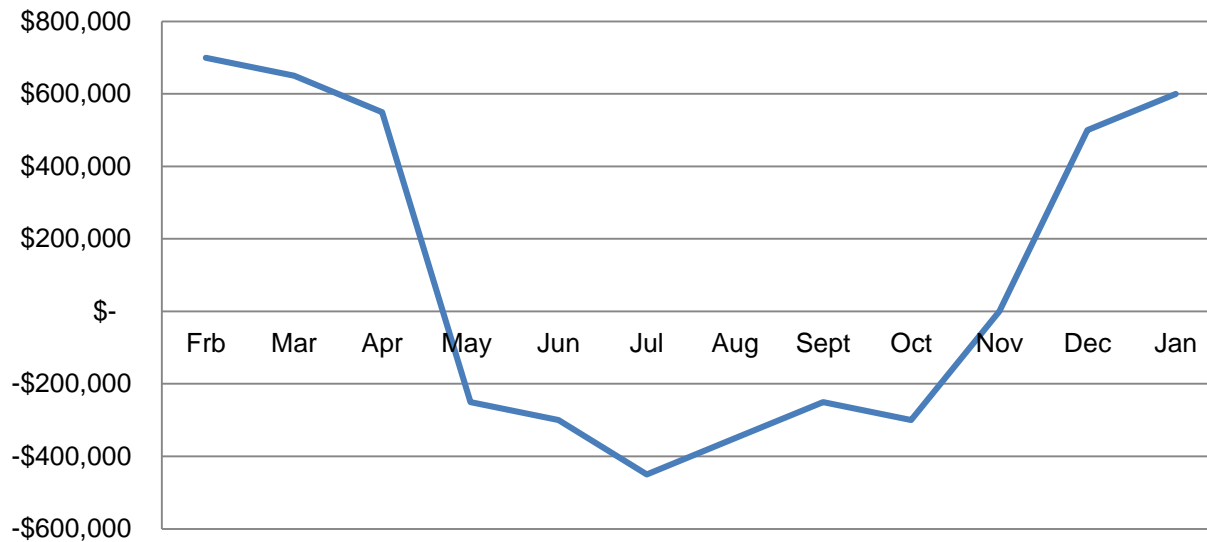
Cash flow	
IN	OUT
Cash flow from operating activities	
Cash flow from financing activities	
Cash flow from investing (capital) activities	

## Net Cash Flow

Cash IN - Cash OUT  
= Whatever is left

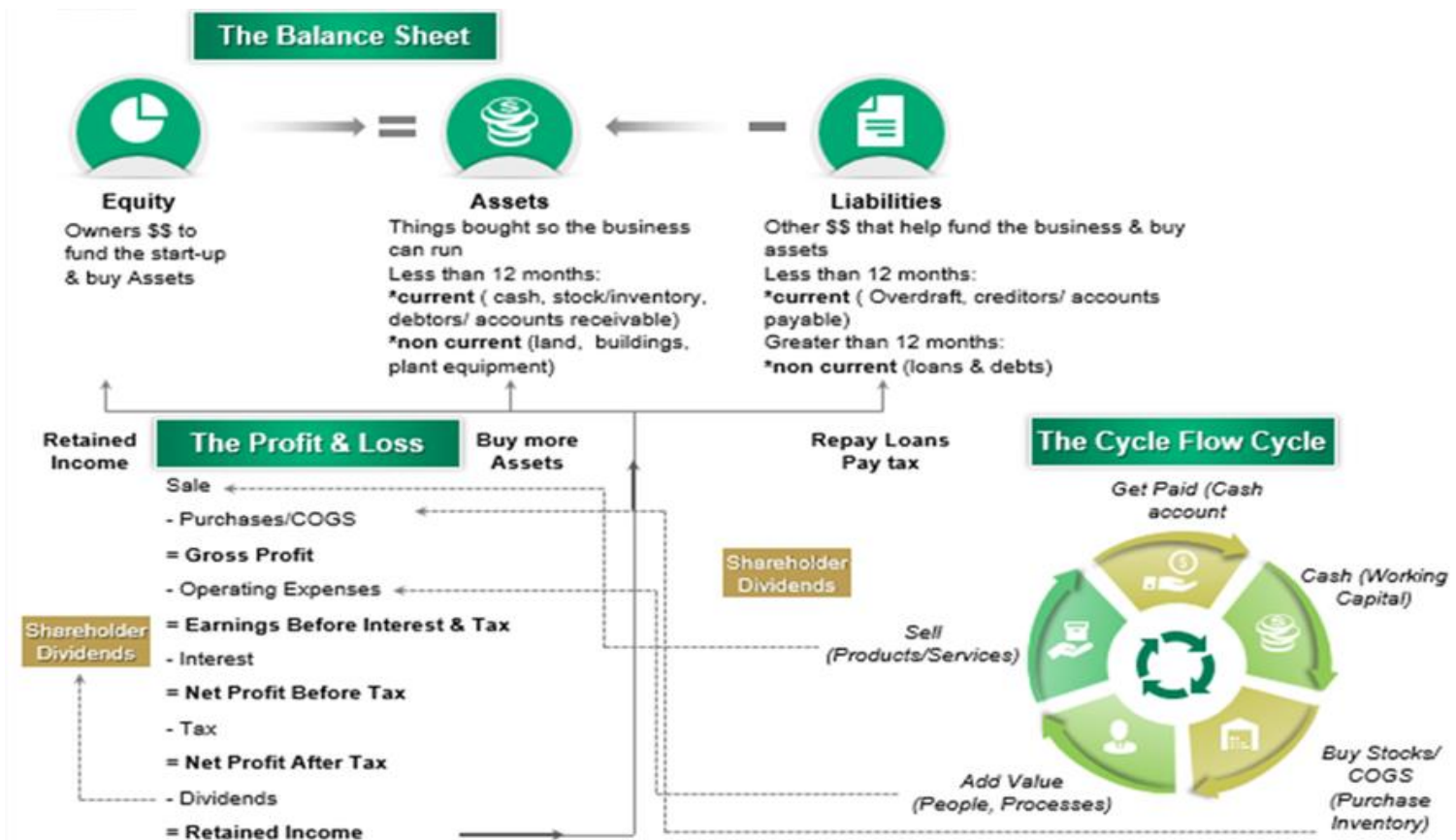
# Monitoring Peak Debt

## Estimated Monthly Cashflow



<b>The Sniff Test</b>	<b>YES</b>	<b>NO</b>
Positive Net Cash Flow from operations?		
Payments to suppliers less than income?		
Net Cash flow from Operations higher than Net Profit after tax?		
Self generating Net Cash Flow?		

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# Statement of Income

A graphic consisting of three interlocking puzzle pieces. The central piece is yellow and contains the text "Statement of Income". The two flanking pieces are grey.

**Statement  
of  
Income**

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# Statement of Income

$$\text{Income} - \text{Expenses} = \text{Profit}$$



## What does it do?

- Reports on Income, Expenses and Profit
- Business efficiency
- Assets under our control generating a profit

## Measuring Business Performance

	<b>Business Management Accounting</b>	<b>Financial Accounting</b>
	For use inside the business	For use outside of the business
<b>Period (timing) of Report</b>	Production Year E.g. Broad acre cropping Feb – Jan	Financial Year (1 Jul-30 Jun)
<b>Purpose</b>	Planning, monitoring and evaluating farm management decisions	Calculation of tax
<b>Basis of recording</b>	Cash or Accrual – lines up all costs and income from the production cycle	Cash or Accrual (as per your accountants advice)



	Calculating Profit	Definitions
	Operating Income	Income earned from the business in the year, including income not yet received e.g. tonnes produced x price
<b>less</b>	Variable Costs	Cost incurred in producing the goods or services of the business. e.g. fertiliser, chemical
<b>=</b>	Gross Margin	
<b>less</b>	Fixed Cash costs	Overhead costs of the business and not directly related to the production of goods and services. e.g. rates, licences
<b>=</b>	Operating Surplus	
<b>less</b>	Fixed non cash costs	Additional costs to business that are not always cash and therefore not captured in the cash flow. Machinery replacement allowance, infrastructure replacement allowance and management allowance
<b>=</b>	Operating Profit (EBIT)	
<b>less</b>	Finance Costs	Interest on borrowings and farm lease/share farm costs
<b>=</b>	Net Profit before Tax (NPBT)	

## Why do we monitor the Statement of Income?

- **Annual Financial Accounting**
- **Business Management reporting**
  - Quarterly
  - Annually
- **Benchmarking**

## Gross Margin

Gross Margin = Gross Farm Income – Variable Costs

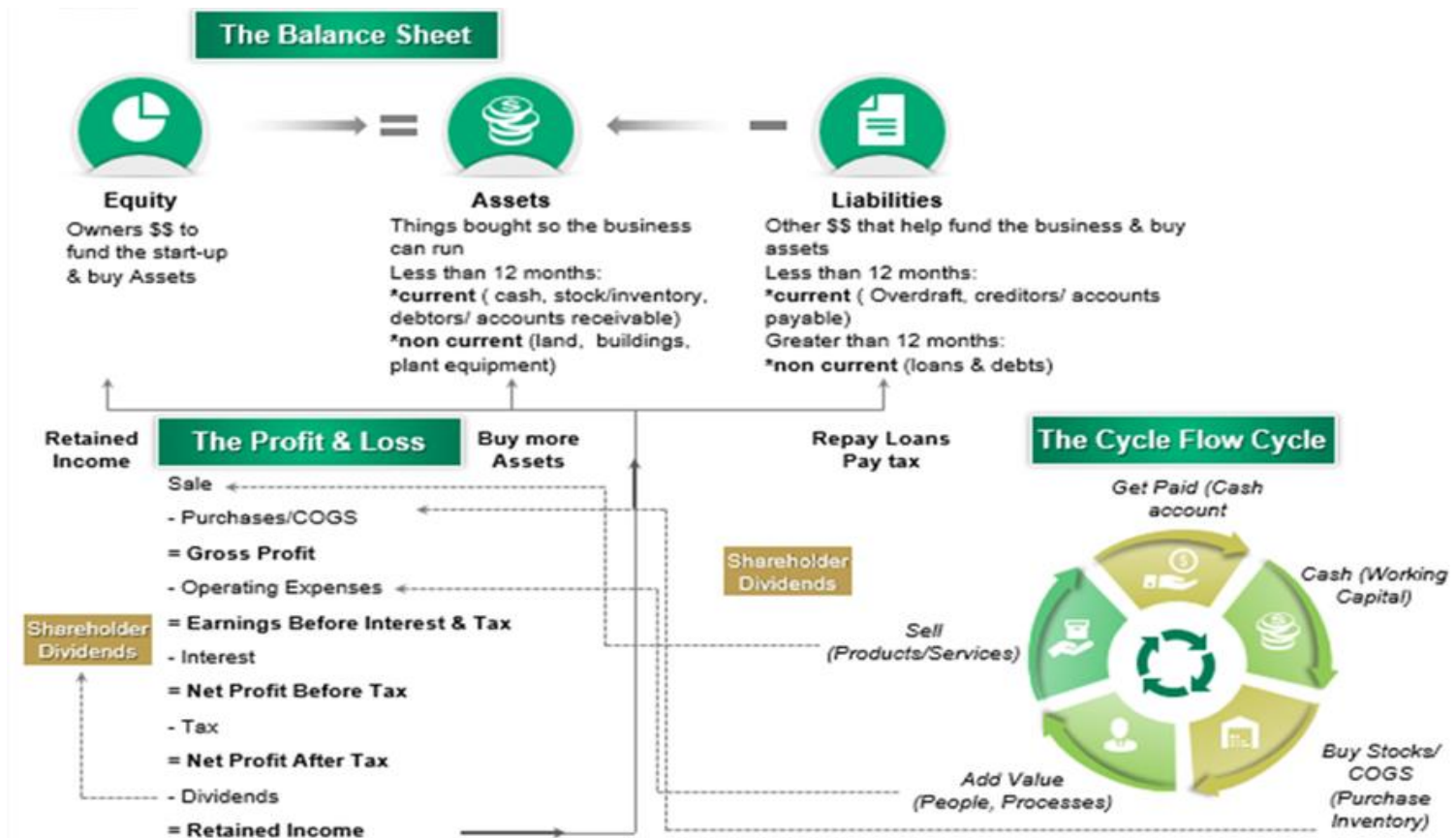
This is a major profit driver of farming businesses  
Important measurement used to monitor and plan

## Enterprise Gross Margin =

Gross Enterprise Income – Enterprise  
Variable Costs

- Analyse and compare the different Enterprises in your business
- Compare Year on Year performance
- Be diligent = Greater knowledge

## Key Financial Management Reports





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# Statement of Position

Three interlocking puzzle pieces are shown in a row. The leftmost piece is green, the middle piece is yellow, and the rightmost piece is red. The red piece has the text "Statement of Position" written on it in white.

**Statement of  
Position**

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# Statement of Position

$$\text{Assets} - \text{Liabilities} = \text{Equity}$$



## What does it do?

- Reports on Assets, Liabilities and Equity
- Measures worth at a point in time
- Measures trends in the business

Name	Definition
<b>Asset</b>	An asset is a resource with economic value that a business owns with the expectation that it will provide future benefit
<b>Current Assets</b>	Assets that can be easily converted to cash or used within the reporting period e.g. Livestock, cash, farm inputs on hand
<b>Non-Current Assets</b>	Assets that will be used over time and not so easy to convert to cash because they take longer to sell e.g. Land, machinery
<b>Liability</b>	In Financial Accounting, a Liability is defined as the future sacrifices of economic benefits that the entity is obliged to make to other entities as a result of past transactions or other past events e.g. loan
<b>Current Liability</b>	Amounts owed that are due within one year e.g. Trade creditors, stock mortgage facility, overdraft
<b>Non-Current Liability</b>	Long term obligations that are not expected to be paid within 12 months e.g. term debt, machinery, Chattel Mortgage
<b>Equity</b>	(Net Worth or Net Assets) this is defined at current market value if the business was to be sold. An increase in Equity means an increase in your Net Worth

## Measuring Business Performance

	<b>Business Management Accounting</b>	<b>Financial Accounting</b>
	For use inside the business	For use outside of the business
<b>Period (timing) of Report</b>	Production Year e.g. Broad acre cropping Feb – Jan	Financial Year (1 Jul-30 Jun)
<b>Purpose</b>	Planning for, monitoring and evaluating changes in wealth over time Assessing bank loans (worth at a point in time)	Preparation of tax returns. Assessing Bank loans (legal basis)
<b>Basis of recording</b>	Current market value	Historical value – the original cost of purchase

# Monitoring the Statement of Position

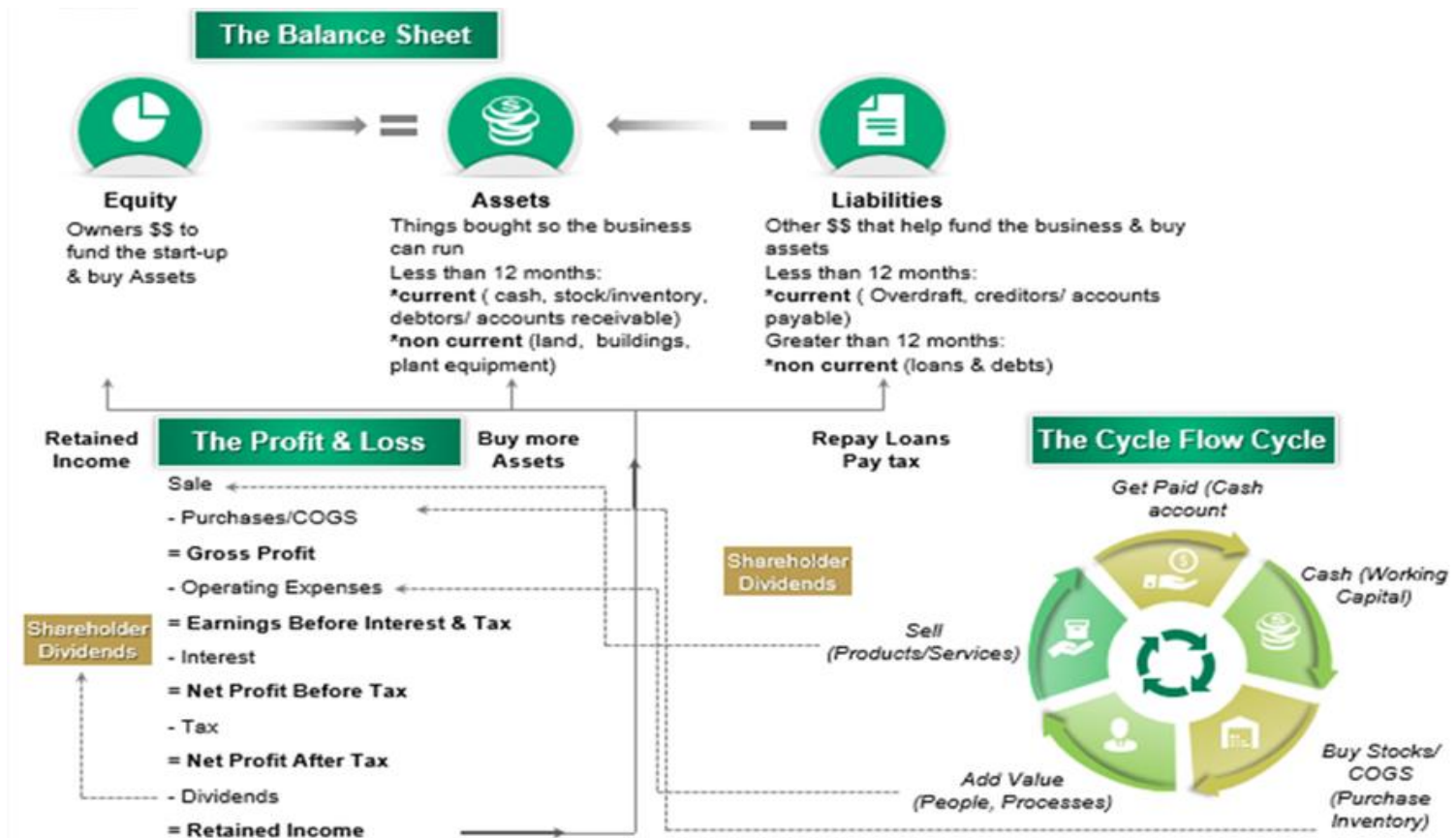
- Measures total Assets and Liabilities
- Changes in Equity
- Tracks major trends over time



# What do we do with Profit?

It's up to you !

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# Business Success



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# What does Success look like to you?



# How do you measure success?



# **Business relationships**

**Banks and financiers**

**Advisors**

**What or Who else?**



# What do you need from a bank?



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# What does your bank need from you?

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## The Five C's of Banking

- Cash Flow
- Collateral
- Capital
- Character
- Conditions



# Professional Advisors

- What are Professional Advisors?
- Why do we have them?
- How will I know if I am getting good advice?



## Want to know more?

### Plan Prepare and Prosper

- Introduction to Strategic Planning
- Strategic Financial Management (includes benchmarking and ratios)
- Human Resource Management
- Succession Planning
- Marketing and Market Research
- Refreshing Strategic Plans

### Planning For Profit

- How to make your numbers work more for you
- Enterprise Planning
- Strategic Capital Purchasing





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# Thank you

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