



Financial Management Activity book

MR 4 and MR 5 Rainfall Zone

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Building your business analysis

Workshop activity 2

What tools do you use in your business and how?

Tool	Yes/No	Who is involved?	What format? Whiteboard? On paper? In head?	How often is it referred to?	Could you improve? How?
Paddock plan					
Gross margins					
Cash flow budget					
Actual vs. budget comparisons					
Profit and loss statement					
Statement of position					
Financial ratios					
Benchmarks					



Workshop activity 3

Calculate Gross Farm Income

1: Calculating Gross Farm Income

Income	Yours \$/ha	Yours % of Gross Farm Income ¹	Planfarm BankWest Benchmarks (2016)		As % of gross farm in come (2016)	
			MR 4 \$/ha	MR 5 \$/ha	MR 4 %	MR 5%
Grain income			330.39	500.53	70.30%	78.80%
Wool sales			48.84	36.51	10.40%	5.70%
Sheep sales			56.29	58.34	12.00%	9.20%
Other livestock sales			15.88	3.66	3.40%	0.60%
Fuel rebate			4.89	6.06	1.00%	1.00%
Other farm income			14.01	29.92	3.00%	4.70%
Gross Farm Income			470.29	635.03		

Notes:

1. To calculate each income item as a % of Gross Farm Income divide by Gross Farm Income, e.g.
164.98 *DIVIDED* by 394.87 x 100 = 74.3%
2. Number of hectares = 2352

Workshop activity 4

Is it a Variable Cost or Fixed Cost in your business?

Cost	Variable or Fixed?
Wages	
Contract	
Rates, Licences, Water	
Administration	
Elec/Gas/Sundry	
Cartage	
Insurance	
Fertiliser	
Seeds/Grading	
Fuel/Oil	
Weeds/Pest	
Plant Repairs	
Blds/Fen/Water	
Fodder & Agistment	
L'stock Expenses	
Shearing	
Rams	
Sheep Purchases	
Cbh & Levies, Other	

My notes

Workshop Activity 6 Calculate and Compare your Variable Costs

Variable costs	Yours \$/ha	Planfarm BankWest Benchmarks (2016)	
		Medium rainfall 4 \$/Ha	Medium rainfall 5 \$/Ha
Contract		\$ 8.23	\$ 14.77
Cartage		\$ 26.57	\$ 20.98
Fertiliser		\$ 77.80	\$ 94.78
Seeds/Grading		\$ 5.76	\$ 12.10
Fuel/Oil		\$ 23.90	\$ 30.18
Weeds/Pest		\$ 59.66	\$ 81.93
Plant Repairs		\$ 29.64	\$ 35.45
Blds/Fen/Water		\$ 4.66	\$ 13.02
Fodder & Agistment		\$ 4.13	\$ 1.61
L'stock Expenses		\$ 7.40	\$ 5.86
Shearing		\$ 10.56	\$ 7.39
Rams		\$ 2.51	\$ 2.97
Sheep Purchases		\$ 5.40	\$ 15.15
Cbh & Levies, Other		\$ 32.87	\$ 44.23
Total variable costs		\$ 229.90	\$380.42

Workshop Activity 7 Calculate Gross Margin

	Yours \$/ha	Planfarm BankWest Benchmarks 2016	
		MR 4	MR 5
Gross Farm Income		\$470.29	\$635.03
<i>MINUS</i> Total variable costs		\$229.90	\$380.42
<i>EQUALS</i> Gross margin		\$240.39	\$254.61

Workshop Activity 8 Calculate your Fixed Costs

Fixed costs	Yours \$/ha	Planfarm Bank West Benchmarks 2016 \$/Ha	
		Medium Rainfall 4	Medium Rainfall 5
Wages		\$ 17.90	\$ 23.37
Rates, Licences, Water		\$ 12.23	\$ 12.61
Administration		\$ 10.89	\$14.35
Elec/Gas/Sundry		\$ 4.27	\$ 3.49
Insurance		\$ 10.35	\$ 13.50
Total fixed costs		\$ 55.64	\$67.32



Workshop Activity 9 Calculate Operating Surplus

- Gross Farm Income *MINUS* Total operating costs = Operating surplus

	Yours \$/ha	Yours as % of Gross Farm Income ¹	Planfarm BankWest Benchmarks			
			\$/Ha		As % of Gross Farm Income	
			MR4	MR5	MR 4	MR 5
Gross Farm Income			470.9	635.03		
Total operating costs			285.54	447.74	61%	71%
Operating surplus			185.36	187.29	39%	29%

Note:

1. To calculate your operating costs and surplus as a % of Gross Farm Income divide by Gross Farm Income

My notes:

Workshop Activity 10 Calculate Operating Costs and Operating Efficiency

How to calculate total operating costs and operating efficiency

- Variable costs *PLUS* fixed costs = Total operating costs
- Total operating costs *DIVIDED* by Gross Farm Income = Operating efficiency

Total operating costs and operating efficiency

	Yours \$/ha	Yours as % of Gross Farm Income ¹	Planfarm BankWest Benchmarks 2016			
			\$ Ha		As % of gross	
			MR4	MR5	MR4	MR5
Total variable costs			\$229.90	\$380.42	49%	60%
Total fixed costs			\$ 55.64	\$67.32	12%	11%
Total operating costs			\$285.54	\$447.74	61%	71%

Note:

1. To calculate your variable costs and fixed costs as a % of Gross Farm Income divide by Gross Farm Income \$/ha.

Workshop activity 11

How to calculate net profit

- Operating surplus *MINUS* Personal, finance and capital costs = Net profit

	Yours \$/ha	Yours % of Gross Farm Income	Planfarm BankWest Benchmarks 2016			
			\$/Ha		As % of Gross Farm Income	
			MR4	MR5	MR4	MR5
Operating surplus			185.36	187.29	39%	29%



Personal, Finance and Capital			102.17	139.75	22%	22%
Net Profit			83.19	47.54	17%	7%

Note:

1. Figure in bracket represents a net loss

Workshop activity 12
Calculating net worth (equity)

Either

1. Complete the statement of position for your farm using the format on the following two pages.
2. Calculate your equity % and assess your level of risk using the matrix provided.

Or

1. Calculate the equity % for February 2012 in the example statement of position in the manual on page 15.
2. Using the matrix provided, what is the level of risk for this business?

Analysis using Financial Ratios and Industry Benchmarks

Evaluating the strength of your business

	Our business Yes/No	Strong business	Secure business	Insecure business	Insecure business with low equity	Non-viable business
Operating surplus		✓	✓	✓	✓	x
Personal expenses		✓	✓	✓	✓	
Finance costs		✓	✓	✓		
Tax		✓	✓	✓		
Loan repayments		✓	✓			
Machinery replacement		✓	✓			
Business expansion		✓				
Structural adjustment +/- or off farm investments		✓				

Ideas for Strategic plan...

Looking ahead and setting goals

How will you allocate your operating surplus?

Personal, Finance and Capital Costs ^{MR4}	Yours \$/ha	Yours % of Gross Farm Income	Planfarm BankWest Benchmarks 2016			
			\$/Ha		% of Gross Farm Income	
			MR4	MR5	MR4	MR5
Personal Expenses			45.67	52.47	10%	8%
Finance			33.40	60.83	7%	10%
Estimated Tax ¹			23.1	26.45	5%	4%
HP payments						
Machinery Replacement						
Loan repayment						
Investment/business expansion						
Capital purchases						
Total			102.17	139.75	22%	22%

Note:

1. Estimated tax = 20% of operating surplus *MINUS* machinery depreciation (10% of machinery value).

My notes:

Farm ratio	Formula	Actual 2017	Actual 2018	Actual 2019	Actual 2020	Budget 2021	Target Benchmarks
Gross margin %	$\frac{\text{GFI - variable costs}}{\text{Gross Farm Income}} \times 100$						≥ 45%
Operating efficiency	$\frac{\text{Total operating costs (V+F)}}{\text{Gross Farm Income}} \times 100$						60 to 65%
Total Operating surplus/deficit	$\frac{\text{Gross Farm Income - Total operating costs (V+F)}}{\text{Effective area (ha)}}$						>\$35/ha
Net Worth	Total assets - Total liabilities						
Equity %	$\frac{\text{Total assets} - \text{Total liabilities}}{\text{Total assets}} \times 100$						65 to 75%
Debt to income ratio	$\frac{\text{Total liabilities}}{\text{Gross Farm Income}}$						1:1 to 1.5:1

Equity	Risk Level	Cash Flow	Comment	Where are you on this matrix?
> 85%	Low			
75–85%	Low	Deficit Neutral Surplus	Eroding equity, act and assess Plan carefully, reduce costs Strong commercial business	
65–75%	Medium	Neutral Surplus	Susceptible to cyclical downturns Maximise use of capital Look at amortising debt	
< 60%	Medium-High	Deficit	High risk, short term sustainability	

Calculating debt-to-income ratio

Total liabilities (debt) ***DIVIDED*** by Gross Farm Income

Total Liabilities	Gross Farm Income	Debt to Income

Debt to income ratio	Risk Assessment	Your debt to income ratio
0.5:1 to 1:1	Low Risk	
1:1 to 1.5:1	Minimal Risk	
1.5:1 to 2:1	Medium to high	
> 2.5:1	High Risk	

Strategic Planning Session

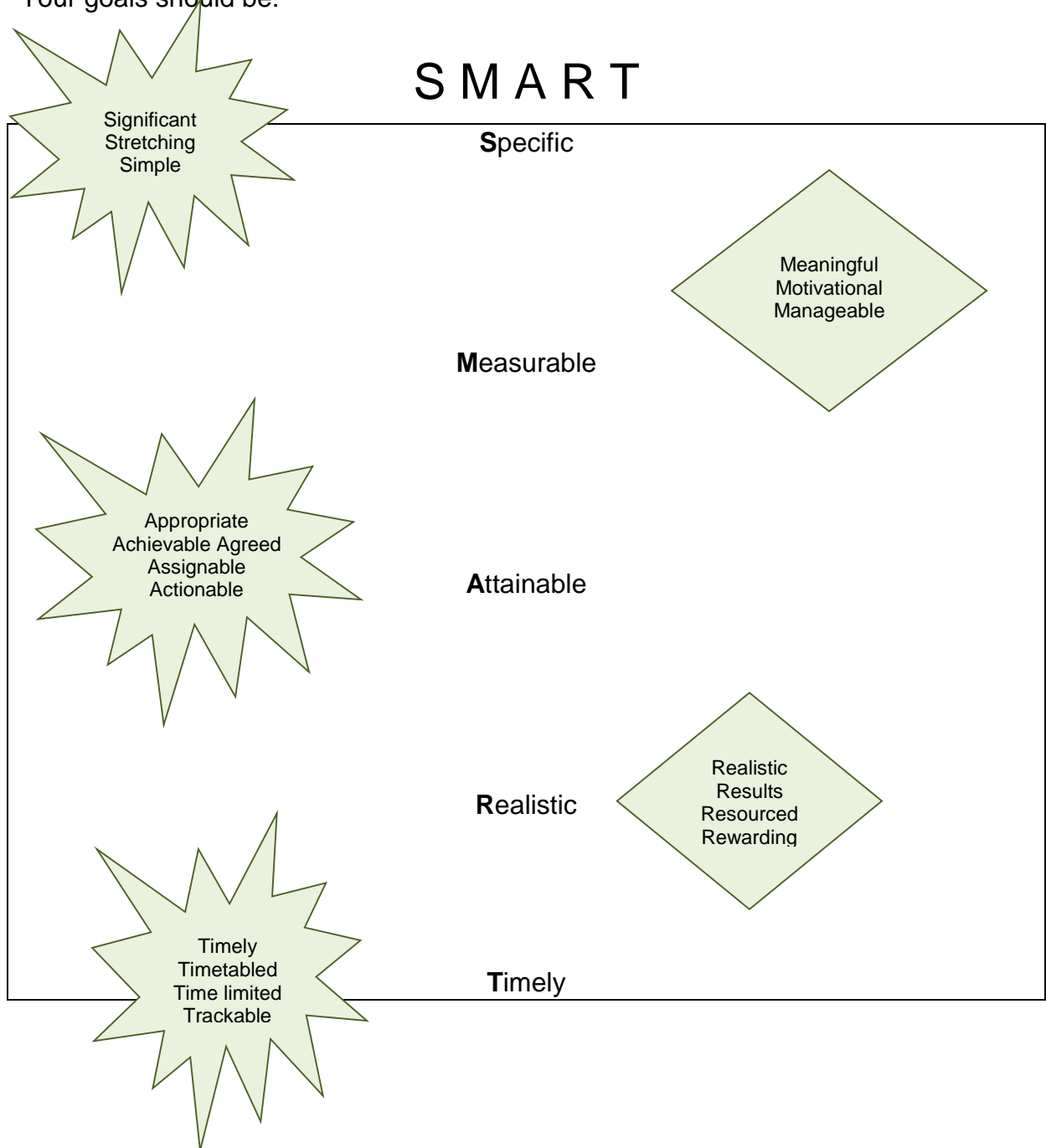
What are the two things in your Business Management you would like to improve?

- Develop two statements

How are you going to achieve this?

- Outline 2 to 3 actions you need to accomplish for each goal.

Your goals should be:



Financial Management – Goals, Strategies and Actions

Goals	
Strategies	
S1	S1
S2	S2
S3	S3

Actions	
Strategy One: A 1 A 2 A 3	Strategy One: A 1A 1 A 2A 2 Aa A 3
Strategy Two: A 1 A 2 A 3	Strategy Two: A 1 A 2 A 3
Strategy Three A 1 A 2 A 3	Strategy Three A 1 A 2 A 3

My notes

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