



# Financial Management Activity book

## H3 and M3 Rainfall Zone

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## ***Building your business analysis***

### **Workshop activity 2**

**What tools do you use in your business and how?**

<b>Tool</b>	<b>Yes/No</b>	<b>Who is involved?</b>	<b>What format? Whiteboard? On paper? In head?</b>	<b>How often is it referred to?</b>	<b>Could you improve? How?</b>
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 <sup>1</sup>	Planfarm BankWest Benchmarks (2016)		As % of gross farm in come (2016)	
			H3 \$/ha	M3 \$/ha	H3 %	M3%
Grain income			522.42	450.94	81.10%	84.60%
Wool sales			42.74	24.25	6.60%	4.50%
Sheep sales			53.28	29.21	8.30%	5.50%
Other livestock sales			0.24	5.93	0.00%	1.10%
Fuel rebate			3.6	3.38	0.60%	0.60%
Other farm income			21.83	19.48	3.40%	3.70%
<b>Gross Farm Income</b>			<b>644.12</b>	<b>533.19</b>		

#### Notes:

1. To calculate each income item as a % of Gross Farm Income
  - a. Divide item (e.g., Grain income) by Gross Farm Income and multiply by 100,
  - b. e.g. 472 *DIVIDED* by 635.59 x 100 = 74.3%
2. Number of hectares
  - a. H3 average size is 2744 hectares and;
  - b. M3 average size is 2757 hectares

## 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)	
		High rainfall 3 \$/Ha	Medium rainfall 3 \$/Ha
Contract		16.25	13.96
Cartage		29.77	24.59
Fertiliser		96.7	80.06
Seeds/Grading		12.11	7.6
Fuel/Oil		29.73	25
Weeds/Pest		63.89	69.04
Plant Repairs		39.73	33.25
Blds/Fen/Water		8.21	3.73
Fodder & Agistment		0.7	1.22
L'stock Expenses		6.69	5.6
Shearing		12.04	4.63
Rams		1.61	1.09
Sheep Purchases		4.78	2.86
Cbh & Levies, Other		28.06	34.17
<b>Total variable costs</b>		<b>350.27</b>	<b>306.8</b>

## Workshop Activity 7 Calculate Gross Margin

	Yours \$/ha	Planfarm BankWest Benchmarks 2016	
		H3	M3
Gross Farm Income		644.12	533.19
<i>MINUS</i> Total variable costs		350.27	306.80
<b><i>EQUALS</i> Gross margin</b>		293.85	226.39

## Workshop Activity 8 Calculate your Fixed Costs

Fixed costs	Yours \$/ha	Planfarm Bank West Benchmarks 2016 \$/Ha	
		High Rainfall 3	Medium Rainfall 3
Wages		36.19	13.81
Rates, Licences, Water		14.7	11.9
Administration		13.71	10.53
Elec/Gas/Sundry		4.66	5.94
Insurance		15.28	10.83
<b>Total fixed costs</b>		<b>84.54</b>	<b>53.01</b>



**Workshop Activity 9 Calculate Operating Surplus**

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

	Yours \$/ha	Yours as % of Gross Farm Income <sup>1</sup>	Planfarm BankWest Benchmarks			
			\$/Ha		As % of Gross Farm Income	
			H3	M3	H3	M3
Gross Farm Income			644.12	533.19		
Total operating costs			434.81	359.81	68%	67%
Operating surplus			209.31	173.38	32%	33%

**Note:**

- To calculate your operating costs and surplus as a % of Gross Farm Income:
  - Divide Operating costs by Gross Farm Income and multiply by 100.

**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 <sup>1</sup>	Planfarm BankWest Benchmarks 2016			
			\$ Ha		As % of gross farm income	
			H3	M3	H3	M3
Total variable costs			350.27	306.8	55%	58%
Total fixed costs			84.54	53.01	13%	10%
<b>Total operating costs</b>			434.81	359.81	68%	68%

#### Note:

1. To calculate your variable costs and fixed costs as a % of Gross Farm Income
  - a. Divide 'cost by Gross Farm Income \$/ha and multiply by 100






## 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	
			H3	M3	H3	M3
Operating surplus			209.31	173.38	32%	33%
Personal, Finance and Capital			99.41	81.16	15%	15%
Taxation			22.31	24.69	3%	5%
<b>Net Profit</b>			87.59	67.53	14%	12%

**Note:**

1. Figures 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 <sup>MR4</sup>	Yours \$/ha	Yours % of Gross Farm Income	Planfarm BankWest Benchmarks 2016			
			\$/Ha		% of Gross Farm Income	
			H3	M3	H3	M3
Personal Expenses			44.46	45.26	7%	8%
Finance			54.95	35.9	9%	7%
Estimated Tax <sup>1</sup>			22.31	24.69	3%	5%
HP payments						
Machinery Replacement						
Loan repayment						
Investment/business expansion						
Capital purchases						
<b>Total</b>						

**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

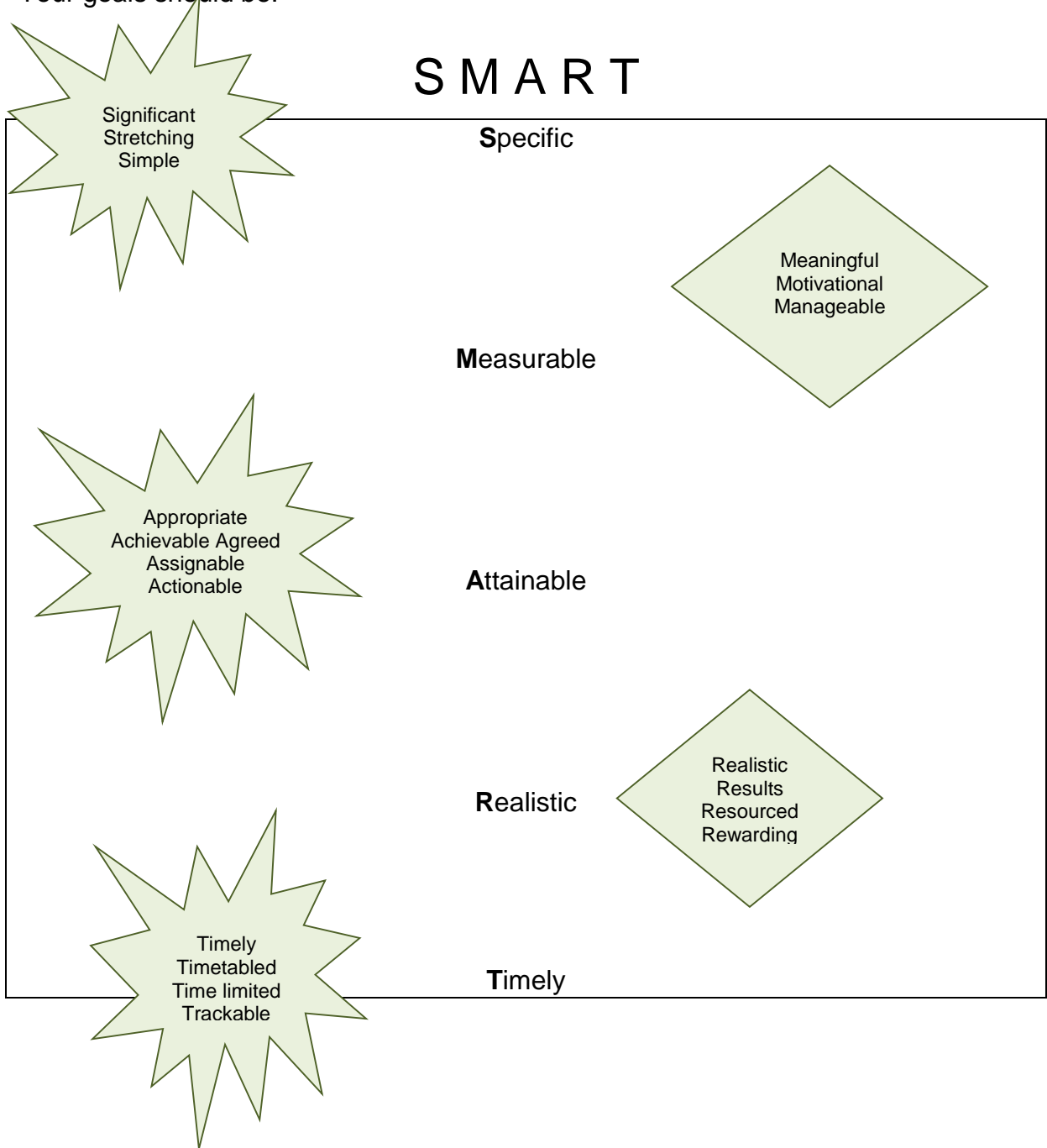
What are the two things in your Business Management you would like to improve?

- 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

<b>Goals</b>	
<b>Strategies</b>	
S1	S1
S2	S2
S3	S3



<b>Actions</b>	
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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