

Capturing the Cost

(And then some!)

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Why are Profits Important?

- Pizza and beer
- Building and equipment updates
- Growth and expansion
- Generational transfers
- Savings and retirement accounts
- Makes loan officers happy
- American pride and a winning team
- So you'll want in!



What can your numbers do for you?



- Pinpoint where you are
- Understand where you have been
- Help determine your future

Working for the government?



SCHEDULE F (Form 1040)		Profit or Loss From Farming		OMB No. 1545-0074	
Department of the Treasury Internal Revenue Service (99)		▶ Attach to Form 1040, Form 1040NR, Form 1041, Form 1065, or Form 1065-B. ▶ Information about Schedule F and its separate instructions is at www.irs.gov/schedulef .		2016 Attachment Sequence No. 14	
Name of proprietor			Social security number (SSN)		
A Principal crop or activity		B Enter code from Part IV		C Accounting method: <input type="checkbox"/> Cash <input type="checkbox"/> Accrual	
E Did you "materially participate" in the operation of this business during 2016? If "No," see instructions for limit on passive losses			<input type="checkbox"/> Yes <input type="checkbox"/> No		
F Did you make any payments in 2016 that would require you to file Form(s) 1099 (see instructions)?			<input type="checkbox"/> Yes <input type="checkbox"/> No		
G If "Yes," did you or will you file required Forms 1099?			<input type="checkbox"/> Yes <input type="checkbox"/> No		
Part I Farm Income—Cash Method. Complete Parts I and II (Accrual method. Complete Parts II and III, and Part I, line 9.)					
1a Sales of livestock and other resale items (see instructions)		1a		1c	
b Cost or other basis of livestock or other items reported on line 1a		1b			
c Subtract line 1b from line 1a				1c	
2 Sales of livestock, produce, grains, and other products you raised				2	
3a Cooperative distributions (Form(s) 1099-PATR)		3a		3b Taxable amount	
4a Agricultural program payments (see instructions)		4a		4b Taxable amount	
5a Commodity Credit Corporation (CCC) loans reported under election				5a	
b CCC loans forfeited		5b		5c Taxable amount	
6 Crop insurance proceeds and federal crop disaster payments (see instructions)					
a Amount received in 2016		6a		6b Taxable amount	
c If election to defer to 2017 is attached, check here <input type="checkbox"/>		6d Amount deferred from 2015		6d	
7 Custom hire (machine work) income				7	
8 Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)				8	

How do I do this?

- Good management records
- Accrual adjustments
- Year-end analysis (*at least!*)

A Manager's Financial Focus

Three main reports:

- § Balance sheet
- § Income statement (aka profit and loss)
- § Statement of Cash Flows

The Balance Sheet

Name: _____
As of: (Date)



Farm Fun Case Study

Balance Sheets - Fair Market Value
As of December 31, 2015 and December 31, 2016

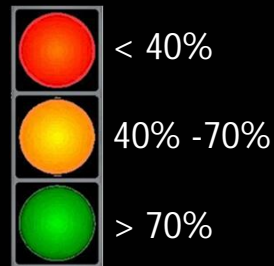
	2015	2016		2015	2016
<i>Current Assets</i>			<i>Current Liabilities</i>		
Cash	71,825	32,456	Accounts Payable	17,500	2,000
Accounts Receivable	1,546	18,546	Accrued Expenses	-	2,100
Inventory	-	-	Operating Loan	-	37,141
Supplies	-	5,000	Current Portion of IT Loans	1,850	1,850
Prepaid Expenses	3,000	-	Current Portion of LT Loans	10,000	10,000
TOTAL CURRENT ASSETS	76,371	56,002	TOTAL CURRENT LIABILITIES	25,350	53,091
<i>Intermediate Assets</i>			<i>Intermediate Liabilities</i>		
Vehicles	12,000	10,500	Equipment Loan (net of CP)	18,500	16,650
Machinery & Equipment	35,000	35,000			
Misc. Tools	5,000	5,000			
TOTAL INTERMEDIATE ASSETS	52,000	50,500	TOTAL INTERMEDIATE LIABILITIES	18,500	16,650
<i>Fixed Assets</i>			<i>Long Term Liabilities</i>		
Farm Real Estate	450,000	450,000	Long Term Loan (net of CP)	200,000	190,000
TOTAL FIXED ASSETS	450,000	450,000	TOTAL LONG TERM LIABILITIES	200,000	190,000
TOTAL ASSETS	578,371	556,502	TOTAL LIABILITIES	243,850	259,741
			OWNERS' EQUITY	334,521	296,761
			TOTAL LIABILITIES AND OWNER'S EQUITY		556,502

Balance Sheet: What does it tell you?

- Net Worth =
$$\frac{\text{Equity}}{\text{Total Assets}}$$

- What is a healthy net worth?

Kohls' Traffic Lights:



Balance Sheet: What does it tell you?

- Liquidity
- Working Capital
$$\text{Current Assets} - \text{Current Liabilities}$$

- Adequate working capital depends on:

- Commodity
- How often income is received
- Stability of commodity price and COGS
- Ability for business to withstand price fluctuations
- Surprises

Guideline: >25% of total farm expenses.

Typical Income Statement

Sales	Sales
- <u>Expenses</u>	- <u>Cost of Goods Sold</u>
Profit	<i>Gross Margin</i>
	- <u>Overhead Expenses</u>
	Profit

Create a 5-Line Income Statement

Gross Sales	\$1.00
Less COGS	<u>-.60</u>
Equals Gross Margin	.40
Less Overhead Costs	<u>-.25</u>
Equals Net Margin	.15

*Turn a bunch of numbers into
a snapshot of your business performance.*

Sort Expenses: Variable (COGS) vs. Fixed (Overhead)

Variable

Production or retail labor
Inputs: seed, plants, fertilizer,
chemicals
Delivery-related costs
Merchant (Credit Card) fees

Fixed

Depreciation
Interest
Repairs
Taxes
Insurance
Utilities
Rent or Lease

Owner/Management Labor
Marketing

Income Statement: Cash vs. Accrual

Both are acceptable bookkeeping practices

- Cash basis: record sales **when cash is received** and expenses when cash is paid out.
- Accrual basis: reports **income when earned** and expenses when incurred.

Ask yourself: Do I have accurate Balance Sheets surrounding the income statement?

Income Statement vs. Tax Return

- Is Schedule F an income statement?
- Goal of a tax preparer?
 - Minimize taxes paid
 - How?
 - Shift income and expenses into another period using special tax rules

Farm Fun Case Study

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	2015	2016		2015	2016
<i>Current Assets</i>			<i>Current Liabilities</i>		
Cash	71,825	32,456	A/P	17,000	2,000
A/R	1,546	18,546	Accruals	-	2,100
Inventory	-	-	Operating Loan	-	37,141
Supplies	-	5,000	CP of IT Loans	1,850	1,850
Prepays	3,000	-	CP of LT Loans	10,000	10,000
TOTAL CURRENT ASSETS	76,371	56,002	TOTAL CURRENT LIABILITIES	28,850	53,091

Useful Financials!

Income:		
Produce Sales	\$	102,808
Plant Sales	\$	52,101
Agritourism Sales	\$	123,960
Crop Insurance	\$	6,750
Other Income	\$	235
Total Income	\$	285,854 100%
Cost of Goods Sold / Costs of Production		
Chemicals	\$	3,983
Fertilizer & Lime	\$	5,246
Fuel	\$	13,775
Growing Supplies	\$	12,564
Labor	\$	75,659
Merchant Fees	\$	2,788
Purchases for Resale	\$	36,350
Retail Supplies	\$	26,475
Seeds and Plants	\$	6,785
Soil Mix	\$	3,300
	\$	186,925 65%
Gross Margin	\$	98,929 35%
Overhead Expenses		
Advertising	\$	9,892
Depreciation		
Dues and Fees	\$	1,831
Insurance	\$	3,256
Interest	\$	9,482
Office Supplies	\$	853
Other Expenses	\$	1,274
Owner Salary	\$	50,000
Professional Fees	\$	1,200
Property Taxes	\$	4,597
Repairs & Maintenance	\$	3,659
Utilities	\$	8,541
Total Overhead Costs	\$	94,585 33%
Net Earnings	\$	4,344 2%

Accrual Adjustments

- Income:
+ \$17,000
- COGS:
-\$17,000
- Overhead:
+8,800
- Net:
+ 25,200!

Labor's True Cost

What are the actual costs?

WAGES

... and ?

Key Components

- Labor Costs: Fully Loaded
 - Wages
 - Payroll Taxes
 - FICA, Medicare, FUTA, SUTA
 - Workman's Compensation
 - Incentive/Bonus/Savings Plans
 - Housing
 - Other Miscellaneous Benefits

One more thing!

- How many HOURS did you use?
- $\$75,659 \div 5,719 = \13.23 per person
per hour!
- 10 staff = $\$133/\text{hour} \times 8 = \$1,064$

Now we know...

- \$163,929 in **variable** costs
- What is this **per guest?** 15,972 trans
(aka *transaction*)
- What GM does it give based on your
current pricing?

Now we know...

- \$163,929 in **variable** costs
- What is this by **department**?

WHAT IF... we knew sales and costs?

Produce sales vs. produce costs

Grocery sales vs. grocery costs

Agritourism sales vs. agritourism costs

Now we know...

- \$103,385 in **overhead** costs
- How much is this per square foot?

2,000 sf market = \$51.69

Back into daily sales goal to cover overhead!

Now we know...

- \$103,385 in **overhead** costs
- How much is this per day open?

10 weekends x 3 days = 30 days

\$3,446/day

Records for this year!

- 12/31/15 & 12/31/16 Balance Sheets
 - Add a phone reminder for 12/31 Balance Sheet annually*
- 2016 Profit Loss Statement
 - with income by department/category*
- Number of transactions or guests
- Square footage
- Days Open
- Hours worked



FARM CREDIT EAST

Profitability Analysis	Profitability Analysis
Benchmarking	Benchmarking
Margin Improvement	Margin Improvement
Strategic Business Planning	Strategic Business Planning
Records Training	Records Training
Records for Management	Records for Management

Value created today?

Email Justin.Mortensen@FarmCreditEast.com the amount!

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