Accounting Reports and Financial Planning Tools

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Topics

1. Accounting and Budgeting Concepts
   a) Balance Sheet
   b) Income Statement
   c) Cash flow budgeting
   d) The role of credit
2. Can it pencil out?
   a) Break-even analysis
3. Bookkeeping systems

1. Accounting and Budgeting

ACCOUNTING STRUCTURE

INCOME STATEMENT:

INCOME (current period earnings)

minus EXPENSE (current expenditures to create income)

equals NET INCOME/LOSS (increases or decreases equity)

ACCOUNTING STRUCTURE

BALANCE SHEET:

ASSETS (long term life/value)

minus LIABILITES (debts)

equals EQUITY (Net worth, owner’s wealth)

Balance Sheet

The Balance Sheet is cumulative and **as of a point in time**, usually the last day of the accounting year.

Assets

Cash

Accounts Receivable

Real Property (Land, land improvements, buildings)

Tangible Personal Property (you can move it)

Intangible Assets (you can't see it, but it has value)

Liabilities

Accounts Payable

Notes and loans payable

Other legal obligations if they are reasonable certain and can be calculated

Equity - Cumulative owners' contributions, less cumulative owner draws, plus or minus cumulative net income or loss . **Or, easier, calculated as the difference between assets and liabilities.**

Income Statement - managing for current profitability

- The income statement covers an accounting period, usually a month, quarter or year.
  - ***Income or revenue*** means income or revenue for the accounting period
    - Regular earned income
    - Other income from events other than the normal course of business – i.e. income from selling an asset.
  - ***Expenses*** means for the accounting period
    - Any expense incurred in order to generate the normal revenue of the business.
    - Other unusual expenses still related to the business – i.e. the costs of selling an asset

Cash Flow Budgeting

	Jan	Feb	Mar	…	Dec.
Cash Received From Operations	-	1,000	2,000	4,000	2,000
Less Cash Paid Out For Operational Expenses	(1,500)	(2,000)	(3,000)	(1,500)	(1,500)
Equals NET CASH FLOW FROM OPERATIONS	**(1,500)**	**(1,000)**	**(1,000)**	**2,500**	**500**
BEGINNING CASH	**5,000**	**3,500**	**500**	**500**	**2,000**
PLUS OR MINUS: NET CASH FLOW FROM OPERATIONS	(1,500)	(1,000)	(1,000)	2,500	500
PLUS: Other Cash Receipts					
From Borrowing			1,000		
Personal Contributions to Business					
LESS: Other Cash Paid Out					
To Aquire Land, Buildings, or Equipment		(2,000)			
To Pay Debt				(1,000)	
For Personal Use					(2,000)
EQUALS ENDING CASH	**3,500**	**500**	**500**	**2,000**	**500**

2. Break Even Analysis

Can it pencil out? A quick estimate: **Break-even analysis**

Example: How many pounds of produce at an average price of $2.00/pound do you need to sell each month to break even?

First, **estimate** your monthly **FIXED COSTS**:

These are the costs that don't change no matter how much you sell or produce such as rent, utilities, management salary, insurance, etc.

Second, **estimate** the **Variable cost** to grow and/or sell one pound of produce:

Add estimates for all production wages, harvesting wages, selling wages and cost of seeds, inputs, water (if metered), packaging, labels, etc.
Divide the total above by the number of pounds sold (or distributed)
EQUALS an estimate of the **VARIABLE COST** of producing and selling one pound

THEN…

Break-even formulas

Break even point per month in units (# of pounds) equals

Total fixed costs per month

divided by

contribution margin per unit (CM)

(CM = Sales price per unit **minus** variable cost per unit**)**

$$N = FC \div (P - VC)$$

Break even dollars per month equals

Sales price per unit

times

Break Even Point in units (#of pounds to break even)

Break-even formulas

Break even price equals

Total fixed costs (per month)

divided by

Expected number of units sold per month

Plus

Variable cost per unit

$$P = (FC \div N) + VC$$

Break-even formulas

Example:

Monthly fixed costs: **$500**

Variable cost/pound:

$4000 cost for all crops

divided by 3000 pounds: **$1.33/lb**

Contribution margin/pound:

Price ($2.00) – Cost ($1.33): **$ .67/lb**

Breakeven in units:

$500/$ .67 equals **746 lbs/month**

Breakeven in $: 746 times $2.00 = **$1492/month**

3. Bookkeeping Systems

Best options for small business

- Old fashioned manual system – Dome
- QuickBooks - the difficulty is setting up the Chart of Accounts

Payroll

- Use a payroll service!
  - ADP
  - Paychex
  - Intuit
  - Others

Resources for Business Planning & Development:

- UC ANR Urban Agriculture website
  - **ucanr.edu/urbanagbus**
  - Urban Ag business plan templates
  - Farm management guides and toolkits
  - Financing resources
- Small Business Development Centers
  - San Diego & Imperial Valley Network SBDC
    - **http://www.sdivsbdc.org**
    - Free individual business consulting
    - Free or Low-cost training workshops

Thank You!

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