

April 2014

Be smart and have a budget

The benefits of having a budget include better knowledge, better control allowing you to be proactive and make better decisions. Having a budget can make a big difference to your profitability providing you use it and regularly update it during the year.

With a volatile pay out, cash farm working expenses increasing per milk solid and rising interest rates, it is important that farmers know financially what is going on in their business.

A good place to start is using past results. You can choose to create a budget by hand, using a spreadsheet, or using farm accounting software to help you. Whatever way used the outcome remains the same. You can also refer to the DairyNZ website for budget templates and our website for historical costs broken down line by line to help with your budgeting. In addition the Fonterra and Open Country have payout calculators to help with forecasts.

It's a good idea to have separate budgets for large expenditure items such as feed and fertiliser budgets allowing for these to be managed specifically. Also a separate budget for your personal spending is a good idea too, as this will make you very aware of the level of your drawings.

It's important to share your budget with key people to your business such as your accountant, bank and farm advisor. You and your bank can then plan to make sure your overdraft facility is adequate.

You will know how much income tax and GST you will need to pay and when this will be due, planning for this means you can avoid any penalties from late payments.

Creating and following a budget will help with many business decisions such as whether and when to buy new equipment, feed, more stock, a new farm, or paying off debt. It will help answer the "what if" scenarios such as how a 10% change in payout affects the bottom line, or a 1% increase in interest rate.

Business and personal strategies become easier with the information of a well thought out budget and allows for planning capital expenditure or an overseas trip. Benchmark your budget against DairyBase statistical reports to see if your budget achieves the desired results.

Your budget will never be 100% accurate and you need to constantly review what is actually happening. It is absolutely vital that you monitor actual expenses against those forecasted and examine the differences. Should any significant differences occur you must reforecast the budget and modify your farming business to reflect the changes. Unplanned events will

always occur such as a drought or machinery breakdown but by having the budget you can react to the situation in an informed and accurate way.

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