

Canterbury Chamber of Commerce

Agricultural Bulletin

FARM BUDGETING

Prepared by Canterbury Agricultural College, Lincoln.

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Written records of past transactions are everywhere indispensable to sound business practice; such records comprise book-keeping. Budgets are plans or estimates covering future transactions, and are equally indispensable. Budget estimates are a commonplace in most businesses, and should be especially valuable for the farmer because of the fluctuation in his returns, due to both seasons and prices, and the necessity for him to take a conservative view of his income and to keep his expenditure within it. By the preparation of a budget the farmer is enabled more easily to see where he can curtail expenses or what he must do to improve his returns.

Method.

Provided accounts are kept in the manner outlined in Bulletin No. 8, a summarised Cash or Bank Account, showing the total Receipts and Payments under suitable main headings, can easily be compiled by adding up all the various items set down under each heading for the year. This will provide a basis for estimating future receipts and payments. In compiling the list of income items for next season it is essential that, as a first step, the proposed carrying capacity and a tentative cropping programme be outlined; then conservative average production should be calculated, and an estimate made of the next season's price level. To prevent any item being omitted it will be found best to consider each branch of the farm separately.

A programme of farming operations for the year assists materially in the compiling of budget estimates. Such a programme should include:—

1. **Crops.**—An estimate of the total area sown, or intended to be sown in each crop, expected yield, and quantities required for seed or feed.

2. **Stock.**—An estimate of the sheep available for sale, arrived at as follows, for a flock maintained by breeding:—

Add together:

Lambs bred
Sheep bought

and deduct:

Killed
Deaths and
Missing

The balance will be number of
sheep available for sale ..

A similar calculation will show the estimated number of ewes, lambs or dry sheep available for sale, sheep to be shorn, cattle or horses available for sale, or after allowing for loss through disease, the number of cows to be milked.

3. **Finance.**—Details in regard to due dates of various payments to be made, so that these will be provided for by setting aside the necessary amounts during periods when receipts are coming in.

The first budget will present more difficulties in compilation than subsequent budgets. When several budgets have been made, a valuable comparison will be available every year; and it will eventually be possible to compile a normal budget and adjust it to provide for variations in management, seasonal conditions and price levels.

The filling in of a simple form somewhat on the lines of the accompanying example should be of great assistance to every farmer in planning his work for the succeeding year.

Capital Items.

If capital items are included, the Budget is likely to be very misleading. It is therefore suggested that any such items be summarised in a separate statement. This should show:—

Estimated Receipts: From the sale of land, implements, machinery, and the sale of any live stock which is in the nature of a realisation of a portion of the usual stock carried on the farm.

Estimated Expenditure: Such as purchase of additional land, machinery or implements, or the purchase of live stock for the purpose of increasing the normal carrying-capacity of the farm more or less permanently.

Surplus or Deficiency: The fact that the year's budget shows a surplus does not necessarily mean that it forecasts a profit on the year's operations, nor is the amount of the deficit shown in the budget an estimate of the probable loss for the year. The budget surplus is merely the amount by which the total estimate of cash to be received exceeds the total estimate of cash payments to be made. In order to accurately estimate the year's profit or loss, it would be necessary to go into the question of appreciation or depreciation on land, stock and plant, interest on capital invested in land, stock and plant, provision of reserves, etc.

Provided the farmer has omitted no item, the season is normal, his production at least as much as average, price levels remain as anticipated, and no other unforeseen conditions arise, the budget for most farmers at the present time will show that, in order to bring expenditure at least within income, some drastic changes will be necessary.

Balancing the Budget.

Possible improvements and economies that may assist to reduce a deficiency or increase a surplus shown in the budget may best be estimated by considering each section of the budget separately. In most cases no large change in method of farming will be involved, but, considering the income side first, the following observations may assist to balance the budget.

Sidelines.

The present low prices will undoubtedly direct the farmers' attention to developing everything which may be profitably turned into cash, without undue loss of capital, such as surplus firewood and timber, horses, poultry, garden and dairy products, and not a square yard under grass or crop should be allowed to go to waste where the grazing or harvesting of it would return one extra shilling of income.

Stock Improvement.

Present stock prices offer exceptional opportunity for farmers to improve their flocks; to secure a better class of stock at a price which cannot be expected to continue, nor to recur for some time. For example, changing over to better young sheep or more productive young cattle should certainly prove a sound investment. It has been suggested in some quarters that the farmer should sell all his ewe lambs and hold his ewes that ordinarily would be cast. On examination, however, this is a disastrous policy in the long run. Older ewes mean higher death rates and less wool. In any case, the flock will have to be renewed in twelve months' time, probably at a higher price than obtains to-day.

Expenditure.

While the export prices are beyond the farmer's control—and there are many items of his expenditure which are rigid in nature—there still remain important expense items which may, by careful pruning, be considerably curtailed.

Labour.

Existing difficulties are forcing many farmers to dispense with at least a portion of their employed labour and do a larger share of the farm work themselves, and to arrange for co-operation with neighbours. The Unemployment Board is also trying to encourage farmers to do necessary work under favourable finance conditions.

Machinery, Teams, Etc.

So far as the use of machinery is concerned, each case will have to be considered individually; in many cases horses will be used rather than tractors, owing to the fact that, while fuel costs are a cash expenditure, horse feed can usually be grown on the farm, and, very often, a profit can be made by combining the breeding of horses with the maintenance of a team. The question of labour-saving machinery, worked on a co-operative basis, could also be considered.

Stores, Materials and Sundries.

Expenditure for stores, materials, and the other multitudinous items necessary to the operation of a farm should undoubtedly be most carefully reviewed by the farmer, and necessarily considerably curtailed. In some cases economies may be effected by enabling farmers in a certain district to bulk their orders for the purpose of obtaining larger discounts for quantities or more economical transport, and a systematic discouragement of commercial travellers visiting farmers

would enable firms to reduce their overhead expenses and so lower the prices of their services.

Rates and Land Tax.

So far as local body rates and land tax are concerned, every effort is being made by both farmers' organisations and Chambers of Commerce to secure reductions in land valuations, insofar as Government taxation and local body rates are concerned, and the total abolition of land tax.

Finance.

Under existing difficult financial circumstances, many farmers will find it advisable to take their banker or financial adviser into their confidence at an early stage. Primary production must be maintained, and it is necessary that finance to carry on production for the current farming year be provided.

While the legal rights of a mortgagee to take possession of a farm cannot be disputed, there is a growing weight of public opinion against any deliberate displacement of a farmer who is farming economically and well and yet may be temporarily unable to pay his interest. Even from the mortgagee's standpoint there is considerable risk of loss in taking possession of a property, as expenses are likely to be greater under hired management and lack of knowledge about the farm than they would be if the farmer were left to work his own place. Where a farmer's possession of his property is

endangered and he is liable to lose his equity, including money expended on improvements, the present situation is necessarily one of keen anxiety. At the same time, his wisest course is to see that the return from the operation of his farm is as large as is humanly possible, so that, even if he is unable to meet all his obligations in full, he will at least have something towards his interest commitments after paying for his working and living expenses on the farm. By submitting clear accounts and a definite budget for the year to his mortgagee or banker, the farmer should then in most cases be able to come to a satisfactory arrangement which will ensure his working and living expenses being provided to enable him to maintain his production for the current year. It is essential that land, stock and plant should not be allowed to deteriorate.

It is most important for the farmer to ensure that any action taken for his immediate protection shall not have the effect of making the obtaining of money for farm mortgages in the future more difficult and interest rates even higher than they are at present.

By careful budgeting, a farmer is enabled to define his financial position, and, by so doing, effect those economies which will permit him to make it secure until the recovery which invariably follows depression rewards him for his trouble.

Copies of this Bulletin may be obtained from the Secretary, Chamber of Commerce, P.O. Box 187, Christchurch.

FARM BUDGET

Estimates for Season 19 /19

<u>PAYMENTS</u>	£	s.	d.	£	s.	d.	<u>RECEIPTS</u>	£	s.	d.	£	s.	d.
LABOUR.							LABOUR EARNINGS						
Permanent.							CONTRACT EARNINGS						
Manager							HORSES to sell						
Ploughman							CROPS (only crops for sale to be included)						
Shepherd							(1) (2) (3)						
Cowboy							Area: Total Estd.						
Casual							acres. yield. price.						
Draining, gorse-cutting, etc.							Wheat				@		
TEAM, TRACTOR & IMPLEMENTS							Oats				@		
Harness, covers, etc.							Oats for chaff				@		
Fodder							Barley				@		
Horses to buy							Peas				@		
Fuel, oil and grease							Grass-seed				@		
Repairs, implement parts, etc.							Cocksfoot				@		
Blacksmith, ploughshares							Potatoes				@		
CROPPING							Other				@		
Harvesting							SHEEP						
Seeds, twine, bags and manure							Sheep to sell:						
Threshing, chaffcutting							Ewes				@		
SHEEP							Wethers				@		
Mustering, shearing, dipping, etc.							Lambs				@		
Grazing required							Rams				@		
Woolpacks and dip							Wool, etc.						
Sheep to buy:							lbs. @						
Rams				@			Hides and skins						
Ewes				@			CATTLE						
Lambs				@			Cattle to sell:						
CATTLE							Cows				@		
Cattle to buy:							Steers				@		
Bulls				@			Calves				@		
Steers				@			Butterfat						
Calves				@			lbs. @						
Dairy Expenses and Repairs							Butterfat bonus						
PIGS, ETC.							PIGS, ETC.						
GENERAL							OTHER FARM INCOME						
Motor and electric power							OTHER PRIVATE INCOME						
Farm stores and fencing							ESTIMATED DEFICIENCY						
Telephone, stationery and sundries													
MOTOR													
HOUSEHOLD													
PERSONAL													
UNFORESEEN													
OVERHEAD													
Rent and rates													
Insurance:													
Life													
Employers' Liability													
Fire													
Land and income tax													
Mortgage interest													
Current Account interest													
ESTIMATED SURPLUS													
TOTAL							TOTAL						