# Financial Analysis for Contract Poultry Growers

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- In absence of marketing decisions, proper financial management is imperative to be successful
- Good records are needed in order for proper financial management
- Workshop takes records already being kept and increases the informational value of those records

- Financial management is primarily the controlling of costs
- Production management is also under a contract grower's control
  - Increasing efficiency and output of your operation
- Improved decision making ability results from better information through proper record keeping procedures

# Why Keep Records?

- Contract growers have little control over the amount of birds placed, but can control your costs
  - Payments specified in contracts also provides grower with an estimate of gross revenue per flock and year
  - Provides opportunity to manage within a margin

- Allows determination of progress or potential problem areas associated within your operation

# Productivity

- Productivity is the determining factor in the financial success of your farm
  - Pay sheets typically list various productivity measures, but are you compiling and tracking these for your operation across time?

- Benchmarking of your farm against other farms helps identify your operation's strengths and weaknesses

# Benchmarking

- Standard Performance Analysis created for cow-calf producers to help benchmark production and financial indicators

- Today's program adapts that analysis for those in the contract chicken production
  - Based on records already keeping:
    - Pay sheets
    - IRS Schedule F & Depreciation Schedule
    - Financial Statements, if available
  - Keep poultry records separate from other enterprises and family expenses

# Program Results

- Two primary comparisons:
  - Comparison with a regional database average:
    - What are my operation's strengths and weaknesses compared to the regional average?

  - Track the same operation over time
    - Where is the operation going?
    - Is it getting there?

# A Word of Caution

- This is program is not designed to replace operational recordkeeping, but enhances information available to management
  - Program participation will do advanced calculations
  - Keep doing what the accountant tells you for tax purposes
- Results are only as good as the information provided
  - More years = better information
  - Keeping enterprise information separate from family expenses = better information
- Will identify problem areas, but not why the problem exists!

# Accrual versus Cash Accounting

# Basic Accounting Terms

- Asset: property that has value and owned by business/individual

- Liability: financial obligation (debt) that business/individual owes to another business/individual

- Equity: Owner's capital invested in business after all debts have been paid
  - Equity = Assets - Liabilities

# Cash Accounting

- Most prevalent form of accounting used in production agriculture
  - Simple
  - Reflects revenues and expenses when paid
  - May overstate (understate) profits in a given year due to when cash is received (spent) versus earned/incurred
    - Depreciation may be ignored (in management decisions)
  - Does not account for inventories held across a year
    - Impact on income/expenses?

# Accrual Accounting

- More in-depth system than cash accounting
  - Improved accuracy of important financial statistics
- Objective is to align income/expense when generated/incurred as opposed to when cash is received/spent
  - If purchase bedding in November 2013, but don't use until January 2014, in what year should this be reflected?
- Disadvantages include time and knowledge to implement

# Accrual Adjusted Cash Accounting

- Ease of use of cash accounting system
  - Income and expenses accounted for when occur
- Adjusts for changes in inventories
  - Broiler chickens placed before end of calendar year, but not reach maturity until following year
  - Accrued interest on loans
  - Generate more accurate income statement/balance sheet as a result
- This system is used in the program
  - Limited changes to existing recordkeeping practices

# Cash Flow Statement

# Cash Flow Statement

- Financial document reflects money flowing in and out of business (enterprise)
  - Measures a period of time (month, quarter, or year)
  - Reflects source of income and how money is being spent (expense categories)
  - Can be a projected or actual cash flow statement

# Cash Flow Statement Components

- Income Categories:
  - Operating Receipts
    - Broiler chicken sales
    - Bonuses for fuel, wind, performance
    - Litter sales
  - Capital (Asset) Sales
    - e.g. land, buildings, generators
  - Government Payments
  - Other inflows

# LSU AgCenter Hill Farm

Enterprise Cash Flow Statement

Jan-March 2013

| | | January | February | March | Quarter |
|---|---|---|---|---|---|
| **CASH INFLOWS** | | | | | |
| *Operating Receipts* | | | | | |
| | Broiler Sales: | $0.00 | $0.00 | $22,061.22 | $22,061.22 |
| | Litter Sales: | $0.00 | $0.00 | $3,000.00 | $3,000.00 |
| | Government Payments: | $0.00 | $0.00 | $0.00 | $0.00 |
| | Miscellaneous Income: | $0.00 | $0.00 | $0.00 | $0.00 |
| *Total Cash Operating Receipts* | | | | | $25,061.22 |
| | | | | | |
| *Capital Sales* | | | | | |
| | Machinery and Equipment: | $0.00 | $0.00 | $0.00 | $0.00 |
| | Land, Real Estate Improvements: | $0.00 | $0.00 | $0.00 | $0.00 |
| *Total Capital Sales:* | | | | | $0.00 |
| | | | | | |
| *Other Inflows* | | | | | |
| | Wages and Salaries: | $0.00 | $0.00 | $0.00 | $0.00 |
| | Investment Income: | $0.00 | $0.00 | $0.00 | $0.00 |
| | Other Income: | $0.00 | $0.00 | $0.00 | $0.00 |
| *Total Other Inflows* | | | | | $0.00 |
| | | | | | |
| **TOTAL CASH INFLOWS** | | $0.00 | $0.00 | $25,061.22 | $25,061.22 |

# Cash Flow Statement Components

- Expense Categories:
  - Operating Expenses
    - Utilities
    - Fuel
    - Interest Expense
    - Gravel
    - Property Taxes
  - Capital Purchases
  - Other Outflows
    - Family Living
    - Income Taxes
    - Debt Service (Principal)

| CASH OUTFLOWS | | | January | February | March | Quarter |
|---|---|---|---|---|---|---|
| *Operating Expenses* | | | | | | |
| | Lease/Rental: | | $0.00 | $0.00 | $0.00 | $0.00 |
| | Chemicals: | | $0.00 | $0.00 | $0.00 | $0.00 |
| | Interest: | | $2,749.55 | $2,749.55 | $2,749.55 | $8,248.65 |
| | Gravel: | | $0.00 | $0.00 | $0.00 | $0.00 |
| | Electricity: | | $296.88 | $453.16 | $479.93 | $1,229.97 |
| | Water: | | $250.00 | $250.00 | $250.00 | $750.00 |
| | Natural Gas/Butane/Propane: | | $9,283.15 | $0.00 | $2,568.21 | $11,851.36 |
| | Fuel (Diesel/Gasoline): | | $0.00 | $0.00 | $0.00 | $0.00 |
| | Repairs & Maintenance: | | $412.84 | $4,300.00 | $625.06 | $5,337.90 |
| | Property Taxes: | | $0.00 | $0.00 | $0.00 | $0.00 |
| | Insurance: | | $0.00 | $0.00 | $0.00 | $0.00 |
| | Supplies: | | $191.19 | $292.16 | $443.44 | $926.79 |
| *Total Operating Expenses:* | | | | | | $28,344.67 |
| | | | | | | |
| *Other Outflows* | | | | | | |
| | Family Living: | | $0.00 | $0.00 | $0.00 | $0.00 |
| | Income & Self-Emplyment Taxes: | | $0.00 | $0.00 | $0.00 | $0.00 |
| | | | | | | |
| | Debt Service: | | | | | |
| | | Intermediate Principal | $0.00 | $0.00 | $0.00 | $0.00 |
| | | Long Term Principal | $4,302.55 | $4,302.55 | $4,302.55 | $12,907.65 |
| *Total Other Outflows* | | | | | | $12,907.65 |
| | | | | | | |
| **TOTAL CASH OUTFLOWS** | | | $17,486.16 | $12,347.42 | $11,418.74 | $41,252.32 |

# Net Farm Cash Flow

- Total Cash Inflows of $25,061.22
- Total Cash Outflows of $41,253.32
- Net Farm Cash Flow is ($16,191.10)
  - Monthly cash flow is negative in January & February
  - Additional loan needed? Available cash reserves?
  - Can purchase dates be altered to align with cash availability?
  - Other enterprises available to offset negative cash flow in poultry enterprise?

# Benefits of Cash Flow Statement

- Improved understanding of where and when money is flowing into and out of the business/enterprise
- Help improve planning process ahead of major capital purchase
  - Is the purchase feasible?
- Do you have the ability to pay debts as come due?
  - Liquidity (i.e. cash) to meet obligations
  - Debt-carrying capacity of the operation

# Cash Flow Statement Requirements

- Construction requires little additional information than already keeping
  - Biggest commitment is time, categorizing income/expenses occur, and when they occur

- Useful tool for budgeting/forecasting cash needs for the upcoming year based on previous years

# Balance Sheet

# Balance Sheet

- Reflects what the business owns and what it owes
  - What is the worth of the business?
- For a specific date
  - A snapshot of assets/liabilities on specific date
  - Commonly completed for December 31st
- Two valuation methods:
  - Cost-basis method
  - Market value method

# Balance Sheet Components

- Assets
  - Ranked in order of liquidity
  - Current assets (most liquid, useful life of one year or less)
    - Cash
    - Supplies
    - Accounts receivable
    - Chickens
  - Non-current assets (less liquid, useful life of at least a year)
    - Buildings
    - Equipment
    - Land

# Sample Hill Farm Balance Sheet

| Assets | Beginning of the Year | | End of the Year | |
|---|---|---|---|---|
| **Current Assets** | | | | |
| | Number of Birds | Total Value | Number of Birds | Total Value |
| Birds | - | $ - | - | $ - |
| Prepaid Expenses | | $ - | | $ - |
| Cash (Farm Checking, Savings, Etc.) | | $ - | | - |
| Miscellaneous | | $ - | | $ - |
| Total Current Assets | | $ - | | $ - |
| **Non-Current Assets** | | | | |
| Machinery | | $ 89,600.00 | | $ 89,600.00 |
| Equipment | | $ 171,250.00 | | $ 171,250.00 |
| Buildings and Improvement | | $ 267,560.00 | | $ 267,560.00 |
| Real Estate | | $ 21,500.00 | | $ 21,500.00 |
| Other Non-Current Assets | | $ - | | $ - |
| Total Non-Current Assets | | $ 549,910.00 | | $ 549,910.00 |
| **Total Assets** | | $ 549,910.00 | | $ 549,910.00 |

# Balance Sheet Components

- Liabilities
  - Ranked in order of due date
  - Current liabilities (come due within one year)
    - Accrued interest
    - Taxes
    - Notes payable (principal)
  - Non-current liabilities (come due in over one year)
    - Buildings
    - Equipment
    - Land

# Sample Hill Farm Balance Sheet

| | Beginning of the Year | End of the Year |
|---|---|---|
| **Liabilities** | | |
| **Current Liabilities** | $ 31,984.43 | $ 31,642.77 |
| (Accounts/Notes Payable, Accrued Interest/Taxes, etc.) | | |
| **Non-Current Liabilities** | | |
| (Machinery, Real Estate, Livestock, etc.) | $ 517,701.02 | $ 454,073.84 |
| **Total Liabilities** | $ 549,685.45 | $ 485,716.61 |

# Information Provided by the Balance Sheet

- Liquidity
  - Can you meet short-term financial obligations without disrupting the normal course of business?

- Solvency
  - Can you pay off all debts if you stopped operating?

- Average value of assets for the year
  - Needed to calculate Return on Assets (ROA)

# Balance Sheet Requirements

- Loan Payment Schedule Data
- Depreciation Schedule (Section 179)
- Financial Statements
- Inventory information
  - Broiler chickens carried over from one year to the next

# Income statement

# Income Statement

- Measures level of profit coming into the operation/enterprise over a given period
  - “Flow” document like cash flow statement
- Reflects cash coming into and leaving the business/enterprise
- Accrual adjustments made to income statement allows for appropriate comparisons
  - Depreciation
  - Changes in inventories from balance sheet

# Income Statement Components

- Cash Income
  - Broiler income
  - Incentive pay
  - Bonuses for fuel and wind speed in houses
  - Litter sales
  - Government payments

# Income Statement Components

- Cash Expenses
  - Labor, Management, Family Living
  - Interest Expense
  - Repairs & Maintenance
  - Chemicals (Insecticide, Rodenticide, Herbicide)
  - Utilities
  - Supplies, Taxes, Insurance

# Income Statement Components

- Depreciation is treated as a cash expense for accrual adjusted income statement
  - Use Schedule F depreciation less any Section 179 deductions
- Changes in inventories from balance sheet also needed for accrual adjusted income statement
- Repayment of loan principal is not an cash expense
  - Proceeds from loans are not income and therefore repayment of principal is not an expense
    - Interest associated with loan is an expense

# Income Statement Requirements

- Information needed already at your fingertips
  - Schedule F and Section 179 filings for IRS
  - Settlement sheets
  - Balance sheet for accrual adjustments

# Benchmarking

# Benchmarks

- Benchmarks allow for evaluation of how farm/enterprise is performing over time
  - Could be production or financial performance benchmarks
  - Comparable business
- Statistics over time inform manager how progressing toward operational goals

# Broiler Production Benchmarks

- Based on a calendar year
  - This is likely your tax year
- Collect information on:
  - When birds placed (sold)
  - How many birds placed, sold, weight
  - Feed conversion
  - Pounds (percent) condemned
  - Percent liveability
  - Percent capacity used/days barn in use

# Financial Benchmarks

- Largely determined from the income statement and balance sheet generated
  - Accuracy matters
  - More years = more information = better decision making
- Generate
  - Annual cost per sold bird
  - Net income per sold bird
  - Return on Assets

# Benchmarks

- You now have entered information for your most recent production year
- Statistics that show high degree of variability warrant additional attention by operator
  - Whether within a year or across years
  - Relative to other contract growers

# Production Benchmarks

- Each operator will receive benchmark comparisons for their operation relative to all similar workshops participants in the next 8 weeks
  - Provide information relative to other operations
  - Identify areas where management is better/worse than average
  - Brief discussion of strategies to help you improve as operator

# Financial Benchmarks

- After workshop, you will receive:
  - A comparison of expense categories as a percent relative to other growers
    - E.g., electricity costs are 10% compared to 7% for average contract grower
  - Comparison of revenues (expenses) per square foot to other growers
  - Net income per sold bird
  - Return on assets
    - Discussion on how to improve this number, if necessary

# Final Thoughts

- Improved information will aid in decision making for your operation
  - Comparison to other similar operations
  - Identification of areas for improvement
  - Recordkeeping is cheap investment to know how operation is performing
  - Already collecting information, so put it to full use

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