

# Duxford Monitor Farm Meeting Report

Meeting 3 – Farm business accounts & benchmarking

17 December 2018

Fowlmere Village Hall

For more information, visit: [cereals.ahdb.org.uk/Duxford](http://cereals.ahdb.org.uk/Duxford)



Tom Mead and David Hurst, Duxford Monitor Farmers

## Key take-home messages

1. Make the most from your management accounts and ensure that cash flow and profit are looked at separately.
2. Calculate your businesses ratio's to assess business resilience.
3. Benchmark your cost of production using your levy-funded Farmbench programme and join the Duxford Arable Business Group to discuss your results locally.

## Farm Business Accounts Analysis, Philip Dolbear

Using your farm business accounts to best effect is critical when talking to your bank manager, managing your tax accounts or using your own management accounts to best effect.

## Bank Assessment

A bank manager, when looking at a farm business may use PARSER to make their assessment:

**P**erson / picture

**A**mount

**R**epayment (budgets, cashfows etc)

**S**ecurity – secondary source of repayment to trading

**E**xpediency

**R**eward – rates and fees

Lending decision

Risk and reward

## Proportional Analysis

An overview to identify key areas 'out of line'. The following gives a guide of the percentages to aim for from your costs:

	%
Gross Output.....	100
Variable costs.....	<u>30 -35</u>
<b>Gross Margin.....</b>	<b>65 -70</b>
Fixed costs	
Labour.....	15-17
Power & Machinery.....	15-17
Other overheads.....	<u>5-6</u>
<b>Total Fixed Costs.....</b>	<b><u>35 - 40</u></b>
<b>Pre Rent and Finance surplus...</b>	<b>30 – 35</b>
Rent and finance .....	15 - 17
<b>Profit .....</b>	<b>15 - 17</b>

## Farmers Statement

You can use a farmers statement to give you the management figures required to do key accounts analysis. This statement provides an assessment of all assets and liabilities.

**Net worth = ASSETS less LIABILITIES**

**CURRENT ASSETS:** Livestock, crop, growing crops, debtors

**CURRENT LIABILITIES:** Liabilities due in the next 12 months, eg. tax, overdraft, creditors, next 12 months worth of HP and term loan debt.

You can then use the balance sheet to calculate the following ratios:

Ratio	Definition	Guide
<b>External gearing %</b>	Amount of liabilities paying interest as a proportion of net worth.	<75%
<b>Total gearing %</b>	Total liabilities as a proportion of net worth	<150%
<b>Interest cover</b>	How many times profit pre finance generated covers interest payments	2x +
<b>Current ratio</b>	How many times current assets cover current liabilities	1+

## Profit

**Profit = Sales +/- Valuation Changes; less variable costs; less overhead costs incl. depreciation.**

*NB. Does not include: capital items, loan repayments; debtor/creditor changes*

It is important to define profit. For any farm business it is good to know what cash profit you need to generate to cover drawings tax, loan repayments and reinvestment. Ask for a Funds Flow Statement (also know as Source and Application of Funds or Cashflow Statement) from your accountant to look at cash flow and profit from your farm business.

## Benchmarking

**“Benchmarking is the process of comparing one’s business processes and performance metrics to industry bests or best practices from other companies.”**



<https://ahdb.org.uk/farbench>

Use AHDB’s whole farm benchmarking programme – your opportunity to input your outputs and costs (fixed and variable) to calculate your cost of production (per t/per ha). Join our Duxford Arable Business Group to discuss the results.

*What was your cost of production for harvest 2017?*

Feed Wheat - East Anglia	£ per ha
<b>PHYSICAL SUMMARY</b>	
Average Yield (t/ha)	10
Average price (per t)	138
Seeds	75
Nutrients	166
Chemicals	209
<b>Total Variable Costs</b>	<b>462</b>
Labour costs	133
Machinery and power	167
Property costs	62
Overheads	45
<b>Total Fixed Costs (excl. rent and finance costs)</b>	<b>611</b>
<b>Total Cost of Production per ha (excl. rent and finance)</b>	<b>1073</b>
<b>Full investment net margin (excl. rent and finance)</b>	<b>336</b>
<b>Total Cost of Production per tonne (excl. rent and finance)</b>	<b>104</b>

## Further Information

**AHDB Business Planning tools:** <https://ahdb.org.uk/business-planning>

**Farmbench** for cost of production calculations: <https://ahdb.org.uk/farmbench>

If you are interested in joining the **Duxford Arable Business Group**, please contact Teresa Meadows on 07387 015465 or [teresa.meadows@ahdb.org.uk](mailto:teresa.meadows@ahdb.org.uk).

## Meetings and Contact Information

### Winter Meeting Dates 2018 to 2019

All meetings will start at 9am with a bacon roll at Fowlmere Village Hall, Chrishall Road, Fowlmere, Cambridgeshire, SG8 7RY.

- Friday 18 January 2019 – Lessons from outside our industry
- Friday 15 February 2018 – Spring cropping and the supply chain

**For more information about the Duxford Monitor Farm, contact:** Teresa Meadows

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**To find out more about Farmbench, AHDB's benchmarking tool, contact:** Holly Howsam

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