New Entrants - Business Opportunities

December 2017
Objectives

• Business accounts refresher
• Explore options for expanding your farm / croft
• Understand partial budgets
January 2017 Summary

• Have a plan for your business
• Assess your existing business performance
  – Using Accounts
  – Using our own management information
• Take advantage of your strengths
• Work on your weaknesses

• And enjoy your business
Accounts are your business

• Capture in figures how the business performed over a set period

• Two key elements
  – Taxable Profit generated by the business - Profit and Loss Account
  – Capital position – Balance Sheet

• Cashflow not normally shown in accounts

• Base info is supplied by you to an accountant
Balance Sheet

• Estimation of business worth at a particular point in time - usually the financial year end

• Assets – fixed and current

• Liabilities – Long term and current

• Net Worth – Assets minus Liabilities
Example Balance Sheet
Variable vs Fixed Costs

• Variable Costs: a cost that would change as the size of the enterprise changes

• Fixed Costs – one that remains the same
Importance of Gross Margins

- You need to know the GM of each enterprise
- Is it positive?
- Or is it negative?
Business Opportunities

• What options do you have to expand your farm/croft?
Purchase Extra Land

- Advantages
- Disadvantages
- Costs
Seasonal Land

• Advantages

• Disadvantages

• Costs?
Tenancy

• Different tenancy types

• Advantages

• Disadvantages

• Costs?
Contract Farming

• A legal agreement between a farmer and a contractor
• Also often called Share Farming

• Farmer supplies land and livestock
• Contractor supplies labour and machinery
Contract Farming

• Advantages

• Disadvantages

• Costs?
How to Assess an Opportunity

• If a farming / crofting opportunity comes up, how can you judge if it is worth taking up?
Partial Budget

• How will a physical change impact the finances?

• Can be using for both business expansion or business contraction
### Partial Budget Example

Simple Scenario: Expand flock by 100 ewes

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<tr>
<th></th>
<th>Annual Losses</th>
<th></th>
<th>Annual Gains</th>
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<tr>
<td><strong>Revenue Lost</strong></td>
<td>£0</td>
<td><strong>Extra Revenue</strong></td>
<td>£3,200</td>
</tr>
<tr>
<td>80 lambs @ £40/hd</td>
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<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>£0</td>
<td></td>
<td>£3,200</td>
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<tr>
<td><strong>Extra Costs</strong></td>
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<td><strong>Costs Saved</strong></td>
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<tr>
<td>Feed @ £10/hd</td>
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<tr>
<td>Vet/med @ £7/hd</td>
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<tr>
<td><strong>Extra Benefit</strong></td>
<td>£1,000</td>
<td><strong>Extra Loss</strong></td>
<td>£0</td>
</tr>
</tbody>
</table>
Partial Budget Exercise

You have been offered extra land under a seasonal grazing agreement.

• 200 ha of (50 ha inbye and 150 ha hill).
• Farm policy – 10 cows and 200 ewes.
• Small shed for over wintering cattle & 1 GP shed

Prepare a Partial Budget and justify a rent
Summary
Thank You