



INFORMED DECISION MAKING

Budgets – “Comparing budget to actuals”

In previous Meridian Agriculture articles we have looked at the role budgets can play in informing decision making in a farm business. While many farmers prepare a budget, it sometimes sits on the shelf and isn't looked at again. Ideally the budget should be used as a planning and reviewing tool throughout the year.

A powerful use of the budget is to compare estimated figures to actual figures (a budget to actual comparison). This enables the Business Manager to review the performance of the business against where the forecast thought it would be.

The budget to actual comparison is also a great communication tool for the farming manager, owner, family, bank and/or other advisors. It is often the starting point for quarterly business meetings.

In most cases a review on a quarterly basis is adequate. Given the actual performance can be obtained at the same time as preparing BAS statements, it's not all that onerous. This is also a good opportunity to review the remainder of the budget to see if it needs updating or fine tuning. In some cases where cash flow is particularly tight, the business may need to do this comparison on a monthly basis.

Consider the following things:

- The impact of the timing of sales and purchases. A variation of budget to actual may just be a timing issue and sales and purchases can be accounted for.
- Outside factors influenced the budget. The two most common causes are dry seasonal conditions and commodity price changes. It is sensible to update the budget to reflect these, as they occur.

Comparing the performance of the business against budget can highlight both negative or positive situations and also assist in reviewing possible scenarios. While a shortage of cash or reduced performance isn't a great position, the sooner planning can commence to manage this, the better. The classic example fresh in peoples mind are the responses made in a dry or drought year. A business is always in a better position to manage increased costs, like fodder, if they are planned.

The comparison can also highlight better than predicted performance. After confirming that this isn't just a timing issue, a business can start planning how to spend the increased profit. This might include bringing neglected repairs and maintenance up to date, use the opportunity to pay down some debt, or increase the fertiliser spend. These are feel good conversations to have and your Meridian Consultant is available to assist.

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