



## INFORMED DECISION MAKING

### Budgets – “Tips and Tricks”:

The previous Meridian Agriculture article describing some of the benefits of using budgets to assist informed decision making.

Initially budgets can seem daunting, however, there are some simple tips and tricks to help make the process easier.

The use of Excel spreadsheets can be your greatest friend in creating a budget. Many versions of the same budget can be created and compared. Most people have some familiarity with Excel and it's pretty simple to design a simple budget. The Meridian team have their own, or your bank may provide one. Also, many accounting and farm business management software packages have budgeting functions. Find a system that suits you and learn how to use it effectively.

As we know, an average year never happens, so you might create a minimum of three budgets for the one year – a “worst case” scenario, a “best case” scenario and a “most likely” scenario. This can reflect seasonal conditions, commodity prices and perhaps even variable input costs. The beauty of the three scenarios is that it can identify if the business is financially strong enough to cope with a tough year, but can also start a thought process around how profits might be spent in really good year. A future newsletter article focussing on sensitivity analysis will explore this in more depth.

Budgets are only as good as the information put into them, so it's important to be realistic. It's also wise to be fairly conservative with your budget, and you need to be truly honest in the ability of your business to deliver.

When preparing a budget for the first time, the best place to start is with last year's actual results. From this information the budget can be massaged, item by item, to reflect what might happen this year. Many items in the budget will often stay very similar from year to year, or perhaps increase slightly to reflect inflation. There will be other items that you know will increase, or decrease, under your control. For example, if there was a major rebuild on a piece of equipment last year, that's unlikely to be repeated this year. On the other hand you might know that you elected not to spread any pasture fertiliser last year, and are planning to catch up this year.

Remember that you don't have to get budgets always right, but with practice, and perhaps some professional guidance, you might be surprised how useful they become.

#### Tips:

- Use previous year's numbers as a base
- Always be conservative!
- Think about “worst case”, “best case” and “most likely”
- Using Excel allows numerous versions of the budget
- Remember, “average” never happens!

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