

DairyNZ money management basics

Personal Cash Budget

Why is business profitability so important?

Profit provides choices. Profitability doesn't usually happen by accident.

Choices enable farmers to expand the business, reduce debt or pay themselves higher drawings.

Why budget?

Budgeting allows you to:

- Take financial control of your business
- Assess the viability of new proposals, borrowing or ventures
- Plan cash income and expenditure.

The starting point for improving business performance is a plan. The plan should reflect the input of all key stakeholders (husband and wife, equity partners, company directors).

The challenge of running a business is being able to make decisions, because being able to make decisions ultimately shapes where you will end up.

Without a budget it is difficult for the manager of a business to be proactive and as a consequence they tend to react to situations, which is often too late.



Having someone from outside the business included in this process, questioning your assumptions, can be very useful.

Remember financial control of your business rests squarely on your shoulders.

Budgeting basics

An annual cash budget indicates if the business is sustainable and viable. It will tell you if you can expect a cash surplus or deficit (loss) at the end of the season.

The process of creating a cash budget is simple, you will need:

- A budgeting tool, for example:
 - Spreadsheet
 - Budgeting software
 - Pen and paper.
- Good accurate records for forecasting the coming season
 - Production
 - Stock reconciliation
 - Financial records.
- Uninterrupted time set aside
- Input from key partners.

If you don't have last year's accounts, expenditure estimates can be obtained from various sources, such as:

- The DairyNZ Economic Survey (0800 4 DAIRYNZ or 0800 4 324 7969 or www.dairynz.co.nz)
- Your bank manager
- Your accountant or business consultant
- The Lincoln University Financial Budget Manual
- Your local DairyNZ consulting officer.



Historical records may reveal trends in the business that need to be accounted for.

Step by step guide to using the DairyNZ Personal Cash Budget

A Personal Cash Budget is useful for anyone who wants to know where their money is going. Completing a personal budget gives greater control over personal expenditure and lets you determine where savings could be made for larger items, such as overseas holidays, or to build up a sum of money for future investments or retirement.

Start by getting organised. Find bank statements, bills and receipts. These will help you see where your money is being spent (rent, mortgage, hire purchase, telephone, power, insurance, groceries and so on).

Working out your personal income

- Start with salary and/or wages for you and your partner
 - This may be drawings from the farm
- Other sources of income
 - Do you receive interest from a savings account? Working for Families assistance?
- It is often easier to think of income and expenses in per week or per fortnight or per month amounts and then multiply out for the number of weeks (52), fortnights (26) or months (12).



Call 0800 774 004 to make sure you're getting your Working for Families entitlements – you may qualify for Working for Families Tax Credits, the Accommodation Supplement or Childcare Assistance.

Personal Cash Budget

Name **Chris and Elizabeth** Budget Period **01 / 06 / 2010 to 31 / 05 / 2011**

Your Income	\$ Amount per (week / month / fortnight / year)	Annual Income \$	Comments
Salary/wages after tax	\$1,450 fortnight	\$37,700	Chris's salary
Salary/wages after tax for partner	\$800 fortnight	\$20,800	Elizabeth's part time wages
Income from investments eg interest, dividends	\$2,000 year	\$2,000	Interest on savings
Other income eg stock sales, lease cows	\$2,500 year	\$2,500	25 cows leased out at \$100 each
Working for Families, Child Support, Benefits			
Other			
Other			
Total Income		\$63,000	

\$1,450/fortnight x 26 fortnights = \$37,700 salary annual income

Add these to get Total Income (\$63,000)



Try to use conservative figures. If you believe you are entitled to Working for Families check your entitlements and err on the lower side of what you might receive.

Working out your expenses

- Fill in each row of the expenses budget that is applicable to you and your family
 - Use past receipts and bank statements to estimate future spending
 - If you have weekly, fortnightly or monthly figures multiply them to reach an annual total
 - Change the categories of expenses to fit with your own lifestyle or write comments as you go.



Don't underestimate your spending on entertainment or leisure if records and receipts are hard to find.

Your Expenses	\$ Amount per (week / month / fortnight / year)	Annual Expenses \$	Comments
House rental or rates, home maintenance & repair	\$100 week	\$5,200	Living in house on farm
Food - groceries	\$120 week	\$6,240	
Food and drink - dining out, takeaways, drink	\$100 fortnight	\$2,600	
Electricity, gas	\$200 month	\$2,400	
Telephone, mobile phone, internet, tv, sky	\$120 month	\$1,440	Phones and internet
Clothes, shoes, farm gear	\$250 month	\$3,000	
Hair and beauty	\$60 month	\$720	
Vehicle - car, bike – petrol, maintenance	\$300 month	\$3,600	
Vehicle - car, bike – WOF, registration, insurance	\$600 year	\$600	
Newspapers, magazines, books	\$50 month	\$600	
Education and training eg school fees, courses	\$2,000 year	\$2,000	
Child care, babysitting, housekeeper	week		
Entertainment - movies, concerts, dvds, magazines	\$40 fortnight	\$1,040	
Leisure - sport, hobbies, gym, pets, music	\$1,000 year	\$1,000	
Travel, holidays, weekends away	\$4,000 year	\$4,000	
Gifts and donations	\$1,000 year	\$1,000	
Healthcare – doctor, dentist, chemist	\$50 month	\$600	
Professional fees – eg accountant, lawyer	\$1,500 year	\$1,500	
Insurance – home, contents, health, etc	\$1,600 year	\$1,600	
Purchases – household appliances, furniture			
Loan payments – house, car, student, livestock			
Loan payments – HP, credit card, overdraft	\$45 fortnight	\$1,170	Sound system
Regular savings	\$800 fortnight	\$20,800	Savings direct debited each pay

$\$100 \text{ per week} \times 52 = \$5200 \text{ annual rent expense}$

$\$45 \text{ per fortnight} \times 26 = \$1,170 \text{ annual loan payments}$



The more financial records you have the better, it is easy to forget annual costs or expenses from more than a few months ago, e.g. medical expenses, holidays, gifts and vehicle repairs/licensing.

Calculating a cash surplus or deficit

- Total Income less Total Expenses leaves a cash surplus or deficit.
 - Determining a surplus or deficit is a valuable step towards setting goals or making adjustments as necessary.

Total Income		\$63,000	
Your Expenses	\$ Amount per (week / month / fortnight / year)	Annual Expenses \$	Comments
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Food and drink - dining out, takeaways, drink	\$100 fortnight	\$2,600	
Electricity, gas	\$200 month	\$2,400	
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Purchases – household appliances, furniture			
Loan payments – house, car, student, livestock			
Loan payments – HP, credit card, overdraft	\$45 fortnight	\$1,170	Sound system
Regular savings	\$800 fortnight	\$20,800	Savings direct debited each pay
Kiwi saver			
Other			
Other			
Total Expenses		\$61,110	
Cash Surplus/Deficit		\$1,890	

Total Income (\$63,000) - Total Expenses (\$61,110) = Cash Surplus/Deficit (\$1,890 surplus)



What savings do you already have? Do you have a savings target? If so how much would you need to save each week, month or year to reach the target? Calculate this and be ready to include it in your budget.

What to do with a cash surplus

If you have a cash surplus left over once you've paid for essential items, take away the temptation to spend everything you earn by "paying yourself first". Just decide on an amount or a percentage of your income you're going to save each pay to improve your financial position.

Put the extra money in a separate account and save it for emergencies or for a long-term goal such as buying your first herd, a house deposit, your children's education or retirement. Make a date to review your budget in six months time.

It takes discipline to save over a long period, keep it simple, set realistic goals and watch your money grow. Saving is easier if you have some clear and motivating goals (eg. buying a herd) in mind. Remember while saving on a day to day basis seems to take forever, small amounts of money snow ball into large sums.

What if I have a deficit?

Use any savings to pay off debt

- Plan to pay off bad debt. Good debt can be used as leverage to make money (e.g. a loan to buy stock); bad debt on something such as a stereo won't help you achieve your financial goals
- Minimise the use of credit cards and hire purchase.

Think about ways to increase your income

- What opportunities are there on or off-farm to earn more?

In what areas could spending be reduced?

- A budget needs to be realistic or reductions in spending won't be achieved
- Keeping a record of what and when you spend in a notebook helps keep track of some of the "miscellaneous" spending that isn't clear on bank statements.

Setting up separate accounts and using automatic payments is one way to ensure you are reaching your goals and preparing for future needs

- It is a good idea to put money aside for emergencies (two to three months pay)
- Set up a separate savings account for long-term goals
- Online banking accounts often don't have fees and without an ATM card it removes the temptation to delve into your savings to make an impulse purchase.



*For budget advice or to arrange a meeting with a budget adviser call
0508 BUDGET (0508 283 438).*