Importance of Budgets

- Monitor monthly performance
- Identify working capital needs
- Forecast impact of operational changes
- Implementation stage of strategic goals

Boards Role in the Budgeting Process

- Income and expense ratio goals
- Equity retirement budget
- Capital expenditure budget
- Monitor monthly and year to date performance
The Budgeting Process

- Gather historical sales, margin and expense information
- Project future sales, margins and expenses
- Project patronage refunds from Regionals
- Accounts receivable forecast as a % of sales
- Project seasonal forecast changes
- Include anticipated capital expenditures and stock retirements
- Determine working capital and seasonal loans needed

Historical Information

- Categorize major commodities and farm supply product groups
- Wheat, Oats, Milo, Soybeans
- Gas, Diesel, LP
- Dry fertilizer, liquid fertilizer, NH3
- Oil, Grease, TBA, Merchandise

Project Income

- Determine historical per unit margin
- Determine historical monthly sales
- Calculate monthly margins for each budget item
Budgeting Expenses
♦ Examine historical expenses
♦ Budget monthly expenses based on history or other known factors
♦ Can use separate estimates for major expense categories

Forecasting Accounts Receivable
♦ Determine AR as a percent of sales for the previous year
♦ Forecast AR for the budgeted sales
♦ Determine increase or decrease in AR

Forecasting Inventory Changes
♦ Based on historical seasonal needs
♦ Any inventory changes that may occur
Budgeting Capital Expenditures
♦ Forecast asset acquisitions during the coming budget period
♦ Examples: equipment, facility renovations, construction, computer upgrades, etc.
♦ Usually allocate to a particular month on a “best guess” basis

Forecasting Cash Flow
♦ Flows from monthly profit or loss
♦ Capital expenditure projections
♦ Reflects projected changes in inventory and A/R
♦ Regional refunds
♦ Depreciation
♦ Forecast equity retirements
♦ Loan payments or new loans
♦ Balanced by determining seasonal loan draw downs and payments

Forecasting Working Capital
♦ Total Savings
♦ Depreciation
♦ Pay Term Debt
♦ Increase Term Debt
♦ Buy Assets
♦ Increase Regional Stock
♦ Retire Stock
## Projecting Balance Sheet Changes

- Based on previous balance sheet
- Reflect anticipated changes in inventory and AR due to sales increases
- Reflect capital expenditures, and stock retirements
- Equity investments
- Stock retirement
- Loan payments and new loans
- Changes in any receivables or payables

## How Can the Board Benefit from the Budget

- Compare monthly and year to date to actual performance
- Helps to determine if strategic goals are achievable
- Use to re-examine capital expenditure or equity retirement plans
- Monitor expense to income ratios
- Foresee problems in meeting loan covenant requirements