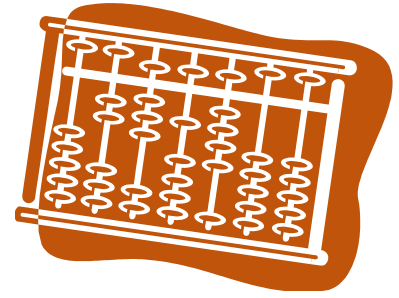


How to Know If You're Making Money



HAL PEPPER

FARMERS MARKET BOOT CAMP WORKSHOPS

JAN-MAR 2016

CENTER FOR
PROFITABLE AGRICULTURE
UTEXTENSION
INSTITUTE OF AGRICULTURE
A UNIVERSITY OF TENNESSEE - FARM BUREAU PARTNERSHIP

What We'll Cover

- Profit
- Cash Flow Statement
- Enterprise Budgets
- Variable Costs
- Fixed Costs

You must know your **income** to know if you're making money.



You must know your **costs** to know if you're making money.



**SCHEDULE F
(Form 1040)**

 Department of the Treasury
Internal Revenue Service (99)

Name of proprietor

Profit or Loss From Farming

Attach to Form 1040, Form 1040NR, Form 1041, Form 1065, or Form 1065-B.

 Information about Schedule F and its separate instructions is at www.irs.gov/schedulef.

OMB No. 1545-0074

2015

 Attachment
Sequence No. **14**
A Principal crop or activity
B Enter code from Part IV
C Accounting method:
☐ Cash ☐ Accrual

Social security number (SSN)

D Employer ID number (EIN), (see inst)
E Did you "materially participate" in the operation of this business during 2015? If "No," see instructions for limit on passive losses ☐ Yes ☐ No

F Did you make any payments in 2015 that would require you to file Form(s) 1099 (see instructions)? ☐ Yes ☐ No

G If "Yes," did you or will you file required Forms 1099? ☐ Yes ☐ No

Part I Farm Income—Cash Method. Complete Parts I and II (Accrual method, complete Parts II and III, and Part I, line 9.)

1a Sales of livestock and other resale items (see instructions)	1a		
b Cost or other basis of livestock or other items reported on line 1a	1b		
c Subtract line 1b from line 1a		1c	
2 Sales of livestock, produce, grains, and other products you raised		2	
3a Cooperative distributions (Form(s) 1099-PATR)	3a	3b Taxable amount	3b
4a Agricultural program payments (see instructions)	4a	4b Taxable amount	4b
5a Commodity Credit Corporation (CCC) loans reported under election		5a	
b CCC loans forfeited	5b	5c Taxable amount	5c
6 Crop insurance proceeds and federal crop disaster payments (see instructions)			
a Amount received in 2015	6a	6b Taxable amount	6b
c If election to defer to 2016 is attached, check here <input type="checkbox"/>		6d Amount deferred from 2014	6d
7 Custom hire (machine work) income		7	
8 Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)		8	
9 Gross income. Add amounts in the right column (lines 1c, 2, 3b, 4b, 5a, 5c, 6b, 6d, 7, and 8). If you use the accrual method, enter the amount from Part III, line 50 (see instructions)			9

Part II Farm Expenses—Cash and Accrual Method. Do not include personal or living expenses (see instructions).

10 Car and truck expenses (see instructions). Also attach Form 4562	10			23 Pension and profit-sharing plans	23		
11 Chemicals	11			24 Rent or lease (see instructions):			
12 Conservation expenses (see instructions)	12			a Vehicles, machinery, equipment	24a		
13 Custom hire (machine work)	13			b Other (land, animals, etc.)	24b		
14 Depreciation and section 179 expense (see instructions)	14			25 Repairs and maintenance	25		
15 Employee benefit programs other than on line 23	15			26 Seeds and plants	26		
16 Feed	16			27 Storage and warehousing	27		
17 Fertilizers and lime	17			28 Supplies	28		
18 Freight and trucking	18			29 Taxes	29		
19 Gasoline, fuel, and oil	19			30 Utilities	30		
20 Insurance (other than health)	20			31 Veterinary, breeding, and medicine	31		
21 Interest:				32 Other expenses (specify):			
a Mortgage (paid to banks, etc.)	21a			a	32a		
b Other	21b			b	32b		
22 Labor hired (less employment credits)	22			c	32c		
				d	32d		
				e	32e		
				f	32f		
33 Total expenses. Add lines 10 through 32f. If line 32f is negative, see instructions					33		
34 Net farm profit or (loss). Subtract line 33 from line 9					34		
If a profit, stop here and see instructions for where to report. If a loss, complete lines 35 and 36.							
35 Did you receive an applicable subsidy in 2015? (see instructions)						<input type="checkbox"/> Yes <input type="checkbox"/> No	
36 Check the box that describes your investment in this activity and see instructions for where to report your loss.							
a <input type="checkbox"/> All investment is at risk.				b <input type="checkbox"/> Some investment is not at risk.			

For Paperwork Reduction Act Notice, see the separate instructions.

Cat. No. 11346H

Schedule F (Form 1040) 2015

What is Profit (Loss)?

Income	\$xxxxxx
Expenses	<u>-\$xxxx</u>
Profit (Loss)	\$xxx

What is Profit (Loss)?

Income	
Expenses	-\$15,000
Profit (Loss)	

What is Profit (Loss)?

Income	\$20,000
Expenses	<u>-\$15,000</u>
Profit (Loss)	

What is Profit (Loss)?

Income	\$20,000
Expenses	<u>-\$15,000</u>
Profit (Loss)	\$5,000

Cash Flow Statement

Sources of Money	
Checking account balance 1/1/xx	\$xxxxxx
Money borrowed	\$xxxxxx
Sales of products	\$xxxxxx
Sales of capital Items (equipment, breeding livestock, land)	\$xxxxx
Grants received	\$xxxxx
Nonfarm sources (wages, interest, dividends, other business income)	\$xxxxxx
Transfers in	\$xxxxx
Nontaxable receipts	<u>\$xxxxx</u>
Total Sources	\$xxxxxxx

Cash Flow Statement

Uses of Money	
Cash farm expenses (i.e., feed, seed, fertilizer, labor, interest)	\$xxxxxx
Capital purchases (equipment, breeding livestock, buildings, land)	\$xxxxxx
Principal repaid	\$xxxxxx
Family living withdrawals	\$xxxxxx
Income taxes	\$xxxxx
Savings & investments	\$xxxxxx
Transfers out	\$xxxxx
Checking account balance 12/31/xx	<u>\$xxxxxx</u>
Total Uses	\$xxxxxxx

Enterprise Budgets

- Serve as a good starting point
- Should be adapted to your location and situation
- Use to develop a whole-farm budget

Example 1: Iowa Carrot Enterprise Budget

CARROTS

Ag Decision Maker -- Iowa State University Extension

For more information on this budget, see the information file [Iowa Vegetable Production Budgets](#).

Enter your input values in shaded cells.

Assumptions:

100' x 4' bed

	Quantity	Unit	\$/Unit	Total
Receipts				
Carrot sales	170	lbs	0.80	\$136.00
Total Receipts				\$136.00

Planting Year Costs**CARROTS****Supplies**

Seed - cover crop	0.75	lbs	0.60	\$0.45
Seed	3	packet	1.50	4.50
Burlap	3	bags	1.80	5.40
Fertilization	10	lbs	0.15	1.50
Other	0	lbs	0.00	0.00

Labor Costs

Cover crop	0.05	hrs	10.00	0.50
Bed preparation	0.20	hrs	10.00	2.00
Fertilizer spreading	0.10	hrs	10.00	1.00
Planting, laying burlap	0.20	hrs	10.00	2.00
Irrigation set up	0.25	hrs	10.00	2.50
Weeding	0.75	hrs	10.00	7.50
Other	0	lbs	0.00	0.00
Interest on Preplant Costs	27.35	dollars	0.035	0.96

Total Pre-Harvest Costs**\$28.31****Harvest****Quantity****Unit****\$/Unit****Total**

Bags (1 lb)	170	bags	0.03	\$5.10
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Labor

Harvest labor	3.50	hrs	10.00	\$35.00
Packaging	0.30	hrs	10.00	3.00
Other	0.00	hrs	0.00	0.00

Total Harvest Costs**\$43.10****Total Variable Costs**

Per bed \$71.41

Per lb 0.42

CARROTS

Ownership Costs (Annual)

Irrigation System	\$1.14
Machinery	7.14
Land	2.29
Total Ownership Costs	\$10.57

Total Costs (Annual)

Per bed	\$81.98
Per lb	0.48

Annual Returns Over Variable Costs

\$64.59

Annual Returns Over Total Costs

\$54.02



Version 1.0

Author: Craig Chase

Date Printed:

12/6/2014


IOWA STATE UNIVERSITY
University Extension

... and justice for all

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Issued in furtherance of Cooperative Extension work, Acts of May 8 and June 30, 1914, in cooperation with the U.S. Department of Agriculture. Jack M. Payne, director, Cooperative Extension Service, Iowa State University of Science and Technology, Ames, Iowa.

Example 2: Annual Whole-Farm Budget

Enterprise	Units-Beds (100'x4' bed)	Estimated Annual Net Return per Unit (from enterprise budgets)	Total Net Return
Carrots	30	\$54 	\$1,620
Snow Peas	40	\$58	\$2,320
Cherry Tomatoes	46	\$181	<u>\$8,326</u>
Total Net Returns (A)			\$12,266
Operating Overhead Costs			
Farm Management Labor	\$7,000		
Accounting Labor	\$500		
Insurance	\$2,000		
Phone	\$500		
Property Taxes	\$1,000		
Advertising	\$300		
Total Operating Overhead Costs (B)	\$11,300		<u>- \$11,300</u>
Net Farm Income (A-B)			\$966

Also Consider Costs of Direct Marketing

- Labor
- Storage
- Transportation
- Product liability insurance
- Farmers market fees
- Legal for trade scales (meets NIST and NTEP standards)
- Permits
- Business license & taxes
- Signage
- Credit card processing fees

Take Home Messages

- Know your income
- Know your costs of production
- Tracking costs by enterprise allows you to compare relative returns of each enterprise
- Consider all costs—variable, fixed and overhead

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- Taken from “Planning for Profit in Sustainable Farming” by Jeff Schahczenski, available at www.attar.ncat.org. National Sustainable Agriculture Information Service

How To Know If You're Making Money

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