

9. Agribusiness Record Keeping

Entrepreneurs accept risks in starting a new venture with a purpose to make profit. Running a business involves various transactions and activities to meet business objectives. Keeping accurate records of business transactions is vital to the success of an agribusiness. Such information allows agribusiness managers or owners to take informed decisions. Given the size of their business and education of the female agribusinesses, a small home-based agribusiness does not require too much complicated bookkeeping and accounting system. A simple and easy bookkeeping mechanism is appropriate for them. The manager of a home-based agribusiness can simply list its business transactions and classify them into two or more categories such as sales, purchases, liabilities, etc. Table 3 provides an example of a record keeping system for small home-based agribusiness.

Table 3. A Record Keeping System for Small Home-based Agribusiness.

Date	Transaction Explanation	Quantity	Unit Price	Total Amount
Purchases/ Costs				
May 10, 2013	Purchase of chemicals	120 kg	Afs 30	Afs 3600
Sales/ Revenue				
July 4, 2013	Sale of strawberries	20 cartons	Afs 200	Afs 4000
Liabilities/ Loans				
April 16, 2013	Loan from Agril. Bank			Afs 20,000

10. Essential Financial and Accounting Terms

10.1. Income

Income or revenue is the amount of money received in payment for goods or services or from other sources (profits, loans, and credit). Suppose Ms. Shilla owns a small family farm producing strawberries. This year she received Afs 5000 from the sale of her strawberries in the nearby local market. This amount of money constitutes Ms. Shilla's total income.

10.2. Expenses

Expenses are costs incurred in earning revenue for a particular financial period. To produce goods or services, entrepreneurs have to purchase certain inputs, pay wages, salaries, taxes, rent, etc. these all make business expenditures. In the continuation of the previous example, suppose Ms. Shilla paid Afs 100 for Seedlings, Afs 300 for wages of labor, Afs 200 for chemical fertilizers, and Afs 400 for packages. This total amount of Afs 1000 constitutes her business expenditures.

10.3. Net Income

Net profit or income is the amount of money remains after deduction of total expenditures from total income is called net income. Using figures of the previous example, Ms. Shilla's net income will be Afs 4000 (5000 – 1000).

10.4. Assets

Assets are items of value that are owned by the business. Some example of assets are cash, receivables, inventory, equipment, buildings, and prepaid accounts.

10.5. Liabilities

Liabilities are business obligations to external parties. Examples of liabilities include accounts payable, notes payable, and mortgages.

10.6. Capital

Capital is the investment that the owner has made or put into the business. For example, money used to start the agribusiness is capital. It also include machines, tools, and buildings.

10.7. Owner's equity/ Net Worth

Owner's equity is the difference between total assets and total liabilities.

10.8. Inventory

An inventory is a physical count of all the assets of a business along with their estimated worth, the aggregate of these items is known as inventories (goods, and assets). The term Inventory is also used for the goods that will be sold in the ordinary course of the business.

10.9. Breakeven Point

The breakeven point is when total receipts equal total costs (or when your expenditures equal your income), i.e. you neither make profit nor sustain losses.

11. Financial Statements

Irrespective of the size of agribusiness, the agribusiness owners and managers needs up-to-date financial information to make decisions about future operations. Financial statements provide adequate disclosure of the condition of an agribusiness. The two most common financial statements are income statement and balance sheet.

11.1. Income Statement

The income statement is a financial statement showing the revenue, expenses, and net income of an agribusiness. An income statement measures the profit gained by an agribusiness over a given time period. This time period is usually one year, however, monthly or quarterly reports may be desired. Other names for the income statement are operating statement or profit and loss statement. The three major components of the income statement are revenue, expenses, and taxes. The first two components (revenue and expenses) are already defined under one of the previous headings, i.e. essential financial and accounting terms. The difference between total revenue and expenses represents taxable income of an agribusiness. Net income is measured by subtracting fixed income tax expense from the taxable income. Table 4 provides a hypothetical example of the income statement.

Table 4. Income Statement of a Hypothetical Agribusiness.

Shilla's Home-based Agribusiness Income Statement for the Year 2012			
Revenue (Afghani/Afs)		Expense (Afghani/Afs)	
Sales of seedlings	Afs 20,000	Cost of goods sold	Afs 15,000
Sales of strawberries	Afs 50,000	Labor	Afs 2000
Sales of eggs & chicken	Afs 15,000	Office expense	Afs 3000
Sales of dairy	Afs 10,000	Input cost	Afs 10,000
		Advertising	Afs 1,000
		Rent	Afs 4,000
		Insurance	Afs 8,000
		Others	Afs 5,000
Total Revenue (TR)	Afs 95,000	Total Expense (TE)	Afs 48,000
Net Income Before Tax (TR – TE)			Afs 47,000
Income Tax Expense (Income tax = 30%)			Afs 14,100
Net Income (Net Income Before Tax – Income Tax Expense)			Afs 32,900

The above example is simplified to suit the circumstances of female agribusiness owners, possessing small home-based agribusinesses.

11.2. Balance Sheet

A financial statement showing all assets and equities (liabilities and owner's equity) of an agribusiness on a specific date is known as balance sheet. The balance sheet can be prepared whenever the financial information is needed. However, agribusinesses should always prepare a balance sheet at the end of a fiscal period. The three major components of a balance sheet are assets, liabilities, and net worth. A popular accounting equation is that "assets equal liabilities plus net worth" which always holds true. That is why, this financial statement is given the name 'balance sheet'.

The balance sheet has normally two columns. Assets are listed in the left side column while liabilities and net worth appear on the right side column. Assets and liabilities have direct values, whereas net worth has an indirect value for it is calculated from total assets minus total liabilities. The three classification of both assets and liabilities are current, intermediate and long-term, i.e. current assets/ current liabilities; intermediate assets/ intermediate liabilities; and long-term assets/ long-term liabilities.

Current Assets and Current Liabilities

Current assets are those assets that an agribusiness manager could convert into cash within a 12-month period without disrupting business operations. Current assets include such items as cash, accounts receivable, inventories, and prepaid expenses.

Current liabilities are debts that must be paid within 12 months of the balance sheet date. Current liabilities include such items as accounts payable, accrued expenses, and any payment due on loans.

Intermediate Assets and Liabilities

Intermediate assets are those that are normally in service for more than one year, but less than 10 years. During this time frame, management either depreciates, liquidates, or replaces the assets. This group includes machinery, equipment, vehicles, and business furnishings.

Intermediate liabilities are payable within a time frame of 1 to 10 years. They primarily involve notes that mature within a 10-year period and taxes levied on the sale of intermediate assets.

Long-Term Assets and Liabilities

Long-term or fixed assets have an expected life or maturity exceeding 10 years. These assets include land, buildings, and other permanent improvements. Long-term or fixed liabilities have maturity periods of more than 10 years. They includes mortgages³ on land and buildings and other long-term obligations.

Table 5. Balance Sheet of A hypothetical Agribusiness.

Shilla's Agribusiness Enterprise (Balance Sheet for Jan, 2013)			
Assets	Amount (Afs)	Liabilities	Amount (Afs)
Current Assets		Current Liabilities	
Cash on hand	10,000	Accounts payable	12,000
Savings in bank	8,000	Short term notes payable	3,000
Value of grains ready for disposal	38,500	Accrued rent	4,000
Livestock products	60,000	Accrued payroll	2,000
Fruits, vegetables, fodder and feed ready for sale	8,000	Accrued taxes	2,000
		Annual instalments of long-term credit	1,500
Sub-total	124,500	Sub-total	24,500
Intermediate Assets		Intermediate Liabilities	
Dairy cattle	10,000	Livestock loans	8,000
Bullocks	9,000	Machinery loans	15,000
Poultry birds	15,000		
Machinery and equipment	15,000		
Tractors	175,000		
Sub-total	224,000	Sub-total	23,000
Long-Term Assets		Long-term Liabilities	
Land	600,000	Tractor loan	120,000
Farm Buildings	25,000	Orchard loan	25,000
Sub-total	625,000	Sub-total	145,000
Total of Assets	973,500	Total of Liabilities	192,500
		Net Worth or Equity	781,000

³ Mortgage is a loan using a real asset, such as a house or other buildings, as collateral.

The example of balance sheet provided in table 5 is somewhat complicated for small home-based agribusinesses whose owners or managers are mostly uneducated. Hence, a simplified balance sheet, suiting them, can be prepared by merely listing the assets and liabilities of the agribusiness regardless of whether they are current, intermediate or long-term.

References

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