CHAPTER 9: MANAGE FARM/MANAGING FARM

9.1 Introduction

This unit specifies competencies required in managing agricultural and livestock farm. It involves; preparing farm strategic plan, managing human resources and managing farm finances. The knowledge and skills gained from farm management helps farm owners in maximizing annual returns on investment and long-term capital appreciation.

The critical aspects of competency to be covered include; demonstrate understanding of farm activities, ability to prepare a farm budget, demonstrate understanding of sources of funds,ability to prepare financial records.Basic resources required include; flip charts, note books, ruler, text books and manual, projectors and computers.

The unit of competency covers three learning outcomes. Each of the learning outcome presents; learning activities that covers performance criteria statements, thus creating trainee's an opportunity to demonstrate knowledge and skills in the occupational standards and content in curriculum. Information sheet provides; definition of key terms, content and illustration to guide in training. The competency may be assessed through written test, demonstration, practical assignment, interview/oral questioning and case study. Self assessment is provided at the end of each learning outcome. Holistic assessment with other units relevant to the industry sector workplace and job role is recommended.

9.2 Performance Standard

Manage farm as per; farm procedures and requirements, accounting procedures, identified laws and regulations, farm plan and in accordance with SOPs, farm communication strategy, farm budget and enterprise requirements.

9.3 Learning Outcomes

9.3.1 List of learning outcomes

a) Prepare Farm Strategic Plan
b) Manage Farm Human Resources
c) Manage Farm finances

9.3.2 Learning Outcome No 1: Prepare farm strategic plan

9.3.2.1 Learning Activities

Learning Outcome No 1: Prepare farm strategic plan	
Learning Activities	**Special Instructions**
1.1. Farm activities are identified as per farm plan 0.2. Farm budgets are prepared as per the activity schedule 0.3. Sources of funds are done as per budget prepared.	Prepare to visit a nearby farm and identify various farm enterprises. Demonstrate various examples of farm budgets.

9.3.2.2 Information Sheet No9/LO1: Prepare farm strategic plan

Introduction to learning outcome

This unit covers; Strategic planning (meaning, importance, tools of planning and planning process) and farm business plan.

Definition of key terms

Strategic planning: The art of formulating business strategies, implementing them and evaluating their impact based on organizational objectives.

Farm business plan: A process and product of developing an overall vision and mission for the business.

Tools of planning: They are instruments that to help guide organizational action steps related to implementation of an initiative, program or intervention.

Content/procedures/methods/illustrations

1.1 Farm activities are identified as per farm plan

Farm activities constitute a body of procedure carried out by a farmer according to set out plans. They include rearing of livestock and various farm activities including haying, harvesting crops, spraying fields, seeding, tilling fields, breeding cows, vaccinating calves, pasturing livestock and feeding livestock among others.

Importance of farm activities

It helps to keep track of the past farm performance and be in a better position to make good plan. The farmers are able to identify the strengths and weaknesses of the various farm activities. The decisions that farmers make when planning the enterprise for the future include:

- What area of land to be used?
- How much the farmer wishes to produce
- When the crops should be produced
- How much labor should be needed to carry out specific activity

The amount of inputs and materials to be used can also be determined easily.

Planning process

Planning means working things out before they happen, some forward-looking planning decisions are immediate. Before making a change based on the weaknesses or strengths of the farm activities, the farmer should estimate what the result of that change would be. The farm activities are market-oriented beginning by determining what buyers want, in what form and when they want it.

1.2 Farm budgets are prepared as per the activity schedule

Farm budget is a statement of estimated income and expenditure. Budgets are used to decide whether a proposed plan will effectively increase profit in the farm.

A farmer can use budget to decide between two or more alternative enterprise and even to make the whole farm plans.

Formulation of farm budgets has the following planning process:

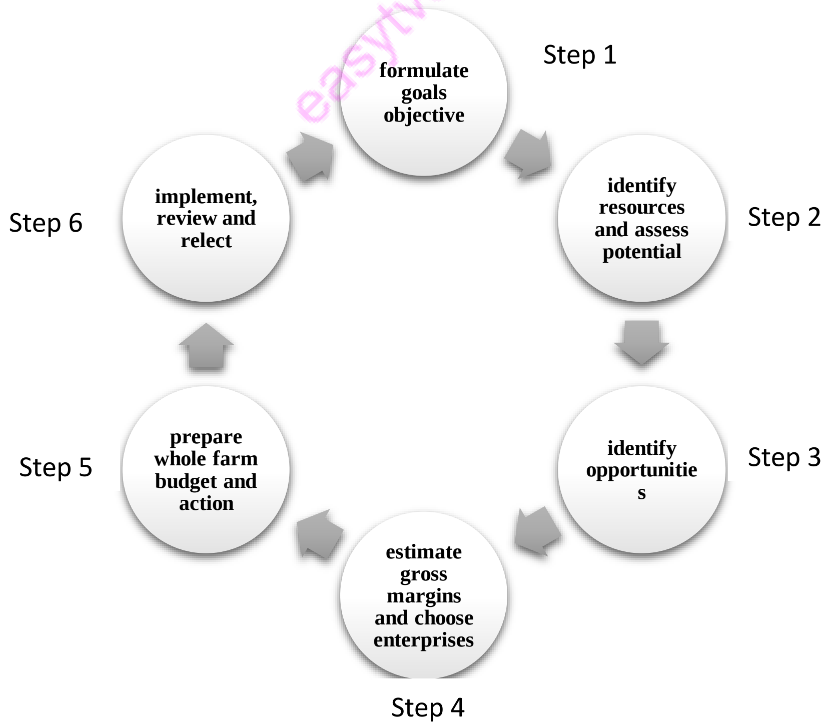

Figure 47:Formulation of farm budgets

Step 1: Formulate goals and objectives

It begins with identification of the farm household goals and a listing of the priorities of various farm activities. It consists of a single goal; maximization of profit of competing enterprises; increasing profit and leisure.

The basic questions that the farmer might ask include what are the family's needs and what is the best way to provide for them.

Step 2: Identify resources and assess potential

The farmer should be encouraged to make a map of the farm. The map shows the current crops and record the soil types and conditions for each plot on the farm. The record serve as a guide to what crops are suitable and what area may be grown and what yields to expect. The farmer identifies problems related to importance such as land products. The farmer identifies weaknesses in management of the business for example excessive debt, high variable costs, depreciation and the use of high labor. The proposed plan must fit in with the available land, labor and financial capital and with the farmer's ability as a manager.

Step 3: Identify opportunities

Choosing an enterprise must take into account market opportunities even if the resource inventory shows that certain crop and livestock enterprises are technically possible. The ideas and suggestions for activities can come from discussions held with the other farmers which could provide important sources of new information.

Step 4: Estimate gross margins and choose enterprises

Estimates are made of the income and variable costs for each of the alternative possible plans. Based on the gross margins and other factors, the most profitable and viable enterprise should be selected. The gross margins should be prepared on the basis of the most limiting resource. The gross margin for each potential enterprise should be calculated on a per unit basis (hectare, person-day).

Step 5: Prepare whole farm budget and action plan

A whole farm budget checks the effect of changes in the cropping pattern and introduction of new enterprises on the economic viability of the entire farm.

The decision requires agreement among the following physical characteristics of the resource base, market opportunities, use of other resources (labor and capital) available to the farmer.

Step 6: Implement, review and reflect; putting the plan into action

The period during which the plan is put into operation is usually the most difficult and requires very careful management. The farmers need to reflect on the outcomes of the plan, evaluate it in terms of the goals set at the beginning of the planning process and assessing the degree to what the plan meet those objectives.

Types of farm budget

There are three basic types of budget that can be used in the farm business management process. Each budget provides different information to the manager for use. The budget format if properly defined and used, the budget format permits the manager to use economic logic to answer questions of what, how much, and when resources should be used.

The three types of farm budgets are:

- Whole-farm budget
- Enterprise budget
- Partial budget

Whole-farm budget: It is a detailed summary of the major physical and financial features of the entire farm business. Whole-farm budgets identifies the component parts of the total farm business and determine the relationships among the different parts both individually and as a whole.

An enterprise budget: It is a statement of what generally is expected from a set of particular production practices when producing a specified amount of product. Consists of a statement of revenues from the expenses incurred in the production of a particular product. An enterprise budgets documents variable and fixed costs. It is useful in calculating profitability and break-even values.

Partial budget: Useful in analyzing effects of a change from an existing plan. It is only considering revenue and expense items that will change with a defined change in the plan.

Importance of farm budget

Farm budgets enables the farmer/ farm manager to:

- Experiment through simulation with possible outcomes of a given organizational change before resources are actually committed to the change.
- Uncover cost. Items that might otherwise be overlooked.
- Learn to better organize and re-organize.
- Seek credit from lending organization.
- Refine the present organization.
- Identify production practices to be used to produce each of the enterprise.

1.3 Sources of funds are done as per budget prepared.

Budget loans to agriculture can be financed by different sources of funds such as farmer household savings, capital markets, budget allocation by the government agricultural cooperatives and societies, bank loan, non-governmental organization among others. Small scale holder farmers can get loans from banks which have low financial costs and stable supply. The objective is to increase income for small holder farmers and agro-based micro and small enterprises. Farmers and farm managers write proposals to non-government institutions for funding. They can also obtain loans from agricultural cooperatives and societies for example Agricultural finance corporation (AFC). AFC is mandated by the government to provide credit for the sole purpose of developing agriculture. AFC develops agriculture and agricultural industries by giving loans to farmers co-operative societies, incorporate groups and private companies. Farmer household savings and profits can be used to run the various farm activities for example to purchase of farm inputs and machinery. The government also allocates funds for subsidizing various farm inputs which are hence affordable for the farmers produce enabling the farmers to obtain income.

Conclusion

This learning outcome covered; Strategic planning, it's meaning, importance, tools of planning and the strategic planning process. It also covered farm business plan

Further Reading

1. Journal; South African Geographical journal; Farm planning pages 49-52

9.3.2.3 Self-Assessment

Written assessment

1. Identify the best definition of planning.
    a) An integrated process in which plans are formulated, carried out and controlled.
    b) Devising ways of achieving the objectives of an organization
    c) Setting an organization's objectives and the means of reaching them.
    d) The core activity of planners and planning department
2. Which one of the following does not show decisions that farmer make when planning the enterprise for the future?
    a) The amount of labor needed
    b) The area of land to be covered
    c) Formulating goals and objectives
    d) The time the crops will be produced
3. The following shows examples of farm budgets which one is not?
    a) Enterprise budget
    b) Multiple budget
    c) Partial budget
    d) Whole farm budget
4. The following best explains the importance of farm budget. Which one does not?
    a) Enable borrowing from lending organizations
    b) Identify production practices to be used

c) Know how much the farmer will produce
d) Refine the present organization

5. Which of the following is not a step for formulating planning process in budgeting?
    a) Identify opportunities
    b) Plan a statement of estimated income and expenditure
    c) Estimate gross margins and choose enterprise.
6. What do you understand by the term strategic planning?
7. Name four sources of funds for farming activities
8. Differentiate between whole farm budget and partial budget
9. Give two importance of farm budget
10. List five farm activities

Oral Assessment

1. Explain the various sources of funds to agricultural farms.
2. Describe the importance of farm budgets.

Case Study Assessment

You have been contacted by a certain agricultural firm which has just recently been started and would like to obtain funds to boost their farm activities, they also require knowledge on budgeting the available resources on the farm. You are an agricultural consultant what advice would you give them and why?

Practical Assessment

Prepare a simple farm budget with well illustrations

9.3.2.4 Tools, Equipment, Supplies and Materials

- Flip charts
- Note books
- Ruler
- Text books and manual
- Projectors
- Computers

9.3.2.5 References

Coffey, E. (1998). *Agricultural finance: getting the policies right*. Fao.

Lapenu, C. (2000). *The role of the state in promoting microfinance institutions* (No. 583-2016-39660).

Maiangwa, M. G. (2012). Group versus Individual Lending: A Review. *PAT*, *8*(1), 40-51.

9.3.3 Learning Outcome No 2: Manage farm personnel

9.3.3.1 Learning Activities

Learning Outcome No 2: Manage farm personnel	
Learning Activities	**Special Instructions**
2.1. Source for personnel as per farms procedures and requirements. 2.2. Coordinate performance management resources, learning and development of personnel in line with farm human resource policy. 2.3. Prepare farm budget as per accounting procedures. 2.4. Undertake internal and external communication in accordance with farm communication Strategy. 2.5. Enforce compliance with legislation and SOPs as per identified laws and regulations.	Discussion on ways of sourcing personnel. Field discussion (Visit a school farm enterprise dealing with livestock)

9.3.3.2 Information Sheet No9/LO2: Manage farm personnel

Introduction to learning outcome

This unit covers; human resources management (Meaning and Importance), performance contracting, monitoring and evaluation, staff recruitment and conflict resolution.

Definition of key terms

Human resource management: The practice of recruiting, hiring, deploying and managing an organization's employees.

Performance contracting: It is a process that and agencies, in order to make them more accountable and enhance prudent use of resources in provision of quality services to citizens.

Staff recruitment: Refers to the process of hiring staff to carry out various activities in an organization.

Conflict resolution: Informal or formal process that two or more parties use to find a peaceful solution to their dispute.

Content/procedures/methods/illustrations

Sourcing of personnel

Sourcing refers to the process of finding resumes within the recruitment process. Recruiters both third party and corporate need to find qualified personnel through a variety of methods. Sourcing has more than one recruitment methods. The way in which these methods are used depends upon a wide array of factors which include;

- The types of candidates needed
- The preferences of the hiring authorities or recruiters
- Past success or lack of success
- The resources at the disposal of the person (or people utilizing the strategy)
- The personnel available to utilize the strategy

The sourcing techniques mainly used by recruiters are:

- Sourcing candidates through a recruiting database.
- Sourcing candidates through various social media platform- recruiters can form a platform hoping to source high quality candidates and recruit them.
- Source candidates through online job postings.
- Sourcing candidates via referrals
- Source candidates from within the organization
- Source candidates through a recruiter network

Human capital plays a vital role in making a farm competitive in today's business environment. The employees should not be neglected rather they should have benefit packages and good living conditions for them to be motivated to fully make them become competent.

Performance management development of personnel is coordinated in life with farm human resource policy

Performance management is the process of creating a work environment or setting in which people are enabled to perform to the best of their abilities. It is a whole work system that begins when a job is defined as needed, it defines interactions with an employee at every step of the way in between major cycle and occurrences. Performance management helps managers and their employees to see eye to eye on expectations, goals and career progress and how those align with the vision of the farm business. A formal performance management represents an industry wide initiative to understand and qualify how employees in the farm are doing and how well they are doing it. It emphasizes learning and development for higher level of workplace performance.

Benefits of performance management to employees, managers and organization.

i. **Improved communication**: Employees and managers communicate more regularly to discuss company objectives and overall progress.
ii. **Reduced stress:** Employees aren't stressing about impressing a manager though some random task and managers aren't worrying about offending employees for not performing.

iii. **Established rules**: Employees and managers more easily understand the process and stipulations for how performance appraisal are performed.

Objectives of performance management

- Monitoring whether the expected performance results are achieved or not.
- Ensuring that the organization is complying with the minimum legal environment requirements.
- Sustain excellence in performance by motivating employees to setting goals that align with organizational strategies.
- Formulate strategy, determining the objectives of the org.

Expected outcomes of performance management.

- Employees should have a clear understanding of what is expected of them and how their goals will contribute to the company's overall achievements. Expectations should go beyond the job description and entails a range of expected outcomes.
- What goods and services should the job produce?
- What effect should the work have on the farm enterprise?
- How should employees act with clients, colleagues and supervisors?
- What organizational value should the employees demonstrate?
- What process or methods should the employee use?

Ways of getting the most of out of the enterprise performance management program

- Define professional development plans. Supervisors and employees work together to create development plans. The plan focuses on skills aimed at mastering the job or on professional development. Employees should have a say in what new things they should use to the company's/ farm's benefit.
- Create measurable performance. Based objectives and expectations. Employee should understand and give input on how each objectives success is to be measured.
- Expectations fall into two categories.
- Results: goods and services produced by the employee in the farm is often measured b objectives or standards.
- Actions and behavior. Methods used to make a product or perform a service and the behaviors and values demonstrated during the process.

2.3 Farm personnel budget prepared as per accounting procedures

A complete farm financial system is composed of a set financial statement and planning budgets. The four planning budgets used to record financial details are:

- Cash flow budgets
- Partial budgets
- Whole farm budgets
- Enterprise budgets

Preparation of each budget requires access to detailed data on farm enterprises, production methods, sources of farm revenue, costs for each enterprise equipment and facility conditions, inventory of suppliers, sources of farm income and insurance and tax records.

Preparation of farm personnel budget falls under enterprise budget which represents the estimate of receipts (income) costs, and profits associated with production of agricultural products.

The enterprise budget is used to:

i. Itemize the receipts (income) receive list of inputs and production practices required by an enterprise
ii. Evaluate the efficiency of farm enterprises
iii. Estimate benefits and costs for major changes in production processes
iv. Provide the basis for a total farm plan
v. Support applications for credit

Enterprise budget should contain receipts for every product and by-product of the enterprise.

In case of crops this may mean listing two distinct products like grain crop.

Enterprise budgets contain several cost components. Costs used should reflect market values and the productivity of enterprise resources (land, labor, capital and management). Determining the costs of production practices can be difficult these differences arise because production costs are unique to each farming operation. An important financial distinction is the concept of variable and fixed costs.

Variable costs: They are those expenses that vary with output within a production period and result from the use of purchased inputs and owned assets. Example in crop budgets include expenses for seed or plants, fertilizer and lime, pesticides, fuel, machinery repairs and maintenance, crop insurance, hourly or seasonal labor, marketing and interest operation on operating capital.

In livestock budgets they include expenses for feed herd, health, breeding, labor, marketing and interest on operating capital. If land and buildings are rented, they should be included as a variable cost.

Other terms used to describe variable costs include cash costs (expenses), direct costs and out of pocket costs.

Fixed costs: They do not vary with level of output and result from ownership of assets that will not change in the short run. They include depreciation, taxes, interest on investment land, repairs on fixed assets and insurance. Depreciation should be accounted using the straight-line method based on actual years of use and typical salvage values rather than accelerated methods allowed for income tax purposes. Sometimes a management fee or a pro-rated cost for salaried employees is also included as a fixed cost. In direct, non-cash or overhead costs are other terms used to describe fixed costs.

Total costs = variable cost + fixed costs

To be financially viable an enterprise must earn a profit above total costs in the long run. In a short run it must receive a price that generates a return at least equal to variable costs. Also referred to as having positive gross margin or return over variable costs. In the long run, however, market price and yield need to be high enough to cover total costs of production including fixed costs

Break even analysis

Enterprise budgets are useful for performing break even analysis for prices and yields. Break even analysis is computed as follows

$$\textbf{Break-even price} = \frac{\textbf{Project total costs}}{\textbf{Expected yield}}$$

This is the minimum price per unit required to cover all projected costs at the expected yield. Provides one with marketing price target that you must receive on average to cover all your costs in the current production year.

$$\textbf{Break-even yield} \quad \frac{\textbf{Projected total costs}}{\textbf{Expected cost price}}$$

This is the minimum yield required to cover all projected costs at the time expected price per unit. It provides one with a production target that must be met to cover all costs in the current financial year.

Break-even yield helps to analyze alternative production options and decide if a given enterprise is a good choice given the growing conditions on the firm operation.

2.4 Internal and external communication is undertaken in accordance with farm communication strategy

Internal communication is information and ideas exchange within the organization

External communication is communication between members of the organization with the outside party.

In the process of management communication plays a prominent role because in the absence of effective communication, no superior-subordinate relationship will thrive as well as employee’s commitment towards organization also depend on it.

i. Internal communication

There are different types of internal communication, which include:

- Leadership and top-down communication
- Bottom-up or two-way communication
- Peer communication/horizontal communication
- Culture communication
- Change communication

Leadership and top down communications

They are always for a reason. When the communication rises from the top management to staff. Top down communication is used to inform staff of the overall business strategy and direction, and therefore are largely company wide and traditionally formal in their nature. Under this category, we tend to see communications including:

- Company updates
- Formal announcement
- Performance or progress
- Business strategy overviews
- Company accolades, awards or recognition

Bottom up communication

It involves transfer of information from the staff to the top management. Bottom up requires the organization to facilitate:

Ideation: For staff to put forward suggestions or ideas

Employee feedback: presenting something to staff and requesting their input or creating a process space for staff to air concerns and complaints.

Question and answers: When staff require further information or clarification.

Staff surveys and pulse surveys to gauge employee sentiments, engagement or mindset.

Polls or staff votes: To gather popular opinion or input on specific issues.

The best organization don't talk at their employees; they talk with them.

Peer to peer communication

This refers to the ability to collaborate with others, finding a peer who can provide help or share knowledge or simply build connections with the colleagues all make for more engaged and productive. Different channels are suited to different types of peer to peer communication for example collaborating on a project or a piece of work peer communication can cover. Team or community including the sharing of information and files, discussion imagery, events and more. Story telling or sharing of knowledge and experiences for example through blogging or within a discussion forum. Problem solving and ideation.

Connecting with individuals who can help or provide knowledge on a specific topic or task.

Culture communication

Organizational culture is defined as the shared values, beliefs, perceptions held by employees within an organization.

Culture communication can cover everything from: Company mission and values, initiatives, campaigns, events and policies such as charity events or commitment to environmental initiative.

ii. External communication

External communication is the transmission of information between a business and another person or entity in the company's external environment. Example of these people and entities include customers, potential customers, suppliers, investors, shareholders and society at large.

Importance of external communication

- It enables the organization to communicate its intent and message for them.
- Spreads the news about the agricultural products and services. It focuses on spreading news and information about the corporation to the public, customers and company stakeholders. Common examples of external business communication include direct mailings, financial records, press releases and news letters
- It defines the public perception. External communications such as newsletters, media stories and press releases let the public know about the company workplace, philanthropic and environmental efforts which serve to strengthen the public relations efforts of a company.
- It also helps to reach new customers. Internet has become a valued resource in reaching new customers. However, there is possibility of public backlash such as negative comment posting but in the long run the benefits far outweigh the risks.

2.5 Compliance with legislation and SOPs is enforced as per identified laws and regulations.

Regulatory compliance is adherence to laws, regulations guidelines and specifications relevant to its business process by the organization's laws establishing agricultural authorities or ministries may also include a labor-related mandate.

The various farm units/ enterprises have different regulations as follows:

The government provides various agricultural acts and regulations which must be adhered to by the agricultural company from production, processing and marketing. In production, the government has set laws on how various enterprises of the organization operation with respect to environmental conservation and job allocations. Some scheduled crops have fixed prices which require an enactment to purchase any such crops to producers of such crops as planted in the calendar year in which the order is made for example;

CAP 318 of the Kenyan agricultural law contain fixing of prices and guaranteed minimum prices for scheduled animal products.

Variation of prices after special review. The minister varies any prices or guaranteed price fixed for any period at the last annual or special review or any price agreed with the representatives of producer for any period.

Importance of compliance with legislation to the organization and the external market.

Organization compliance is very important because it forms part of your organization's duties with respect to the community it belongs to while building trust. In the area of safety certain products and utilities must comply with standards in order to protect people. When organization trains itself to abide by proper code of conduct, errors and misunderstandings can be prevented while providing everyone with a healthy atmosphere not only within the organization/company but also the company it serves.

Conclusion

This learning outcome covered; human resources management, its meaning and importance. It also covered performance contracting, monitoring and evaluation, staff recruitment and conflict resolution.

Further Reading

1. Journal on agriculture Act CAP 318 (Rev. 2012)
2. Journal on introduction to farm planning budgets for new and beginning farmers-Virginia cooperative extension.

9.3.3.3 Self-Assessment

Written assessment

1. The following shows various ways in which personnel are sourced in an organization which one does not?
    a) Sourcing within the organization
    b) Sourcing through connections with management of the organization
    c) Sourcing from various social media platforms
2. Two of the following shows importance of performance management. Which one does not?
    a) Established rules
    b) Explain professional development plan
    c) Reduced stress
3. Expected outcome of performance management include all the following except?
    a) What goods and services should the job produce?
    b) What process should evaluate the efficiency of farm enterprises?
    c) How should employees act with clients, colleagues and supervisors?
4. Which one is not an example of farm budget?
    a) Whole-partial budget
    b) Partial budget
    c) Cash flow budget
    d) Enterprise budget

5. The following are examples of variable cost, which one is not?
    a) Expenses on various commodities
    b) Insurance on crops
    c) Income from sales
6. Differentiate between external and internal forms of communication
7. Name two types of farm budgets
8. Give two objectives of performance management in an organization
9. What do you understand by performance contracting?
10. Give three functions of human resource manager in an agricultural firm.

Oral Assessment

1. Explain the various forms of internal communications
2. Explain the expected outcome of performance management in an organization

Case Study Assessment

An agricultural firm has lost two of its workers/ staff to another agricultural firm, the company therefore wishes to recruit two workers to work on the livestock enterprise and crop enterprise. You are the human resource manager how are you going to source out the best candidate fit for the various positions and why? What measures are you going to take to ensure that workers are satisfied with work and their needs met?

Practical Assessment

Visit the school agricultural enterprise dealing with livestock on production of various crops identify the variable and fixed costs and compute a break-even analysis.

9.3.3.4 Tools, Equipment, Supplies and Materials

- Flip charts
- Note books
- Ruler
- Text books and manual
- Projectors
- Computers
- Staff registers
- Masters roll

9.3.3.5 References

C GAP- working group on savings mobilization 1998. Proceedings of the Africa conference- savings in the context of microfinance Kampala, Uganda, Eschborn

FAO. GTZ, 1998. Agricultural finance revisited: why?

FAO. GTZ. Agricultural financial revisited. (AFR) No, 1, Rome

WOCCOL/ USAID, 1992. Financial planning and Budgeting. Training manual of the small farmer organizations strengthening project in Honduras.

9.3.4 Learning Outcome No 3: Manage farm finances

9.3.4.1 Learning Activities

Learning Outcome No 3: Manage farm finances	
Learning Activities	**Special Instructions**
3.1. Prepare farm budget in accordance with enterprise requirements 3.2. Identify financial priorities in accordance with farm budget 3.3. Control and monitor financial operations in accordance with SOPs 3.4. Maintain financial records as per SOPs	Field Excursion (Visit a nearby farm and identity various enterprises in terms of financial priorities) Demonstrate how farm budgets are prepared.

9.3.4.2 Information Sheet No9/LO3: Manage farm finances

Introduction

This learning outcome covered; farm accounts sources of finance, financial accounts balance sheets, farm records, sales records, purchase records, production records and financial documents.

Definition of key terms

Farm records: A document used to keep account of different activities, events materials regarding the farm operations.

Financial documents: These are formal records of financial activities and position of a business, person or other entity.

Farm accounts: They are statements of money paid out or received for goods and services used farming business.

Content/procedures/methods/illustrations

3.1 Farm budget is prepared in accordance with then enterprise requirements

A farm budget is a statement of estimated income and expenditure. A process of estimating costs, returns and the profit of a farm or a particular enterprise. Before preparing, a farm budget a farm plan must developed. The farming plan can be divided to two stages namely;

i. Analysis and consideration of the factors that influence the choice of branches of production
ii. The choice of branches of production

Available resources must be analyzed namely; the farm, buildings and equipment, capital, labor and management. The following factors are applicable and demand careful analysis and consideration when developing a farming plan

- The available resources
- Marketing aspects
- The relationship between production branches
- Specialization as opposed to diversification

A farm budget based on enterprise requirements will form an enterprise budget. An enterprise budget includes all cost and returns associated with producing one enterprise on particular manner. Enterprise per acre or per head to facilitate comparisons among alternative enterprises. An enterprise is any activity, which results in a product used in the farm or sold in the market examples of enterprises, includes an acre of wheat, a cow producing calves and an acre of maize.

Enterprise Budget Construction

Procedures and assumptions used in constructing an enterprise budget affect the way it is interpreted. For budgeting process, most regions are divided into production areas. These production areas are grouped by production practices/land areas to reflect similar soil weather economic conditions. Budgets are constructed for most of the major crop and livestock enterprises found in a particular area.

Enterprise Budget Components

Every enterprise budget has three main parts; income, variable costs and fixed costs.

Income

Income is identified in the first section of the budget. Income, shows the products produced the quantity and unit of each product and the expected price per unit. Total income (revenue) per product is quantity multiplied by income per unit price. Most budgets are blank for users to enter expected income. The purpose of the enterprise budget may affect the yield and price estimates.

Variable (Operating)costs

Variable costs are the second set of values in the budget. Variable are those cost that vary with changes in production. They are grouped according to stage of production. Within each stage of production, operations are listed in the order they are performed such as harrowing, disking and sowing seeds.

Types of variable costs are; non-cash and cash costs are incurred for items such as fuel, bailing twine and repairs on cash costs are incurred for labour supplied by the farm operator. Unless otherwise stated, most budget treat labour as if it is operator labour therefore non-cash.

Fixed (ownership) Costs

The fixed ownership of costs is shown in the meet section of the budget. They represent costs that are incurred, weather the production of enterprise occurs or not once the land machinery and equipment necessary for the enterprise have been obtained. Fixed costs are often referred to as ownership costs or sunk costs. It should be emphasized that if the enterprise budget is for a new enterprise and necessary land, machinery and equipment have not yet been, these ownership costs are still available at that point by not producing or by not obtaining the assets. Cash costs in fixed costs include cash leases, insurance and taxes on machinery, equipment buildings and land. Cash fixed costs consist of interest and depreciation, where all interest is treated as opportunity costs. Depreciation provides a means of spreading replacement cost over the useful lives of machinery and equipment.

Table 17: Examples of a Budget:

Year 1

Hay establishment production cost and returns		
Year one	No. of tones	Total cost
Gross income		
Oat hay	3 tons @sh 60000	Ksh. 180,000
Total cost		Ksh. 240,266
Net projected returns		Ksh 60260

Year 2

Year 2		
Gross income	2.5 @6500	162500
Oat + alfalfa hag		
Year 1 cost	6026	6388
Other costs		31868

Net projected returns ksh. 22006

Importance of Enterprise Budget

It provides production targets that the farmer must produce to cover all costs for production targets that the farmers must produce in order to cover all costs for production of a specific enterprise. It estimates the full economic cost and returns. Helps to show cash flow budgets to estimate seasonal cash inflows and outflows.

3.2 Financial priorities are identified in accordance with farm budget

Financial priorities-they are referred to as things that should come first or should be allocated finances in a company or agricultural firm. If the company is serious about reaching its goals a series of smaller goals or milestones have to be reached first. That is why financial priorities are important to make it possible for a company to progress towards true financial freedom. When setting financial priorities in a farm these questions out to be looked at.

- Should they be set in terms of raw profit?
- Which growth has been achieved in the previous years and months?
- Is the path of the farm crucial foe the general farm production?

Goal Driven Priorities

Financial goals are important in the beginning, when they represent the steps between the idea of business and sustainable financial reality. Without careful ambitions (but realistic) goals in place, it is unlikely that farm will get off the ground-even if it is selling. Financial priorities should be in line with the set financial goals.

Layered Goals

Determining where exactly to set goals is the most challenging part and will vary from business to business and product to product. It is important to establish a farm range of numbers with the low and representing, what you need to achieve and high end representing, a new plan and ideal accomplishment. The priorities should be realistic about what the business needs to do for survival. To establish low end or minimum goal experiences have to reckoned that surpass that number professional expenses like materials, paid hours of labor, hosting fees etc. are obviously parts of the calculation.

Sticking to Set Priorities and Goals

Whatever financial priorities set they must be firm having the gray area between the low and high ends will give the room to accommodate realities. With a partner or group of partners, they must be sure open, precise and clear conversation about financial goals. Every partner should have an input when it is time to establish him or her. Have an honest conversation about what set priorities and goals are realistic and will move the farm business to the next level.

Starting out

Common mistake new entrepreneurs in farm make in business is setting financial priorities to the farm sections that do not have a high profit margin and are less crucial to day to day activities in a farm. However, there are constraints in financial priorities in a farm which include

- Inadequate or ineffective policies
- Conversion of production market and price risk of provided farm products.
- Lack of expertise of financial institutions in managing agricultural loan portfolios

Development of agriculture requires financial services that can support; larger agricultural investments and agriculture –related infrastructure that require long term funding.

3.3 Financial operations are monitored and controlled in accordance with SOPs

Financial operations refer to execution of joint finance mission to provide financial advice and guidance. Support of the procurement process providing pay support and providing disbursing and proper monitoring of financial operations, are crucial. Because it allows one to make timely well and informed decisions in resource to changing conditions. Reviewing operation indicators should be done every month and conduct more thorough analysis the farm’s performance to objective set out at the beginning of the year are compared basing on long term strategic plan. Financial operation indicators fall into five categories;

- Growth- Are the sales and profits of the firm increasing or decreasing year over year look for a trend.
- Liquidity- Can the farm meet its short-term obligations
- Profitability-It is the business making enough profit compared to other similar operations.
- Average – It is the farm business taking advantage of financing to operate and grow?
- Activity-They are the assets of the company managed effectively.

Monitoring of financial operations takes place in the following ways

Operations of key financial statements

The basic reports that every farm business needs to produce are the balance sheet and the profit and loss statement. They are not only vital indicators of the performance of the business but they are also required statutorily. They give overview of financial health of business. It tells the business owner everything that they need to know about how their enterprise is fairing on.

Preparation of inventory records

The farm business may invest heavily on machinery equipment and raw materials. They should maintain accurate inventory records; it shows how much stock was purchased. In addition, how much was used for making the final products, how much money went to waste and whether any farm equipment has gone missing at any point of time. It tells them weather they need to purchase more raw materials and enable them to calculate input/output ratios and stock turnover ratios.

Preparation of working capital statements and financial ratios

Business should ask the finance teams to put together regular working capital statements and periodic calculations of current ratios and quick ratios. This will tell them how any assets they have, as compared to their liabilities, and how many assets they can convert quickly to cash.

Preparation of fund and cash flow statements

Fund flow statements and cash flow statements are vital reports for business that tell them just how much liquid cash is coming into a business. There are many receivables that are marked as revenues, in the balance sheet but in closer examination, they reveal that they are some way off from being converted into hard currency and a business can only run with proper earnings.

Analysis of marketing experiences

How much money is being spent on advertising and does the returns justify the expense or is it merely an unwanted cost for the company. How much money is being spent on other marketing avenues and how many leads are being converted into proper sales.

Competitive Analysis.

Financial indicators of the company should be compared with those of another farm business so that they know how the farm is fairing. May be their competitors are able to costs and increase revenue in ways that this business had no thought of yet.

Importance of Financial Operators

It ensures that an organization is conducting business at peak efficiency and ability. it helps to improve and helps clients the efficiency and accuracy of forecasting, planning and analyzing, close and financial reporting proceeds ultimately close enabling the focus to shift to higher value activities for driving business growth.

It also helps enterprise performance management to provide clients with actionable information and robust tracking capabilities to manage corporate performance, enhance management reporting and improve decision making for driving growth while streamlining the budget the planning and forecasting processes.

3.4 Financial records are maintained as per SOPs

F financial records means all books of account and other financial data and information and includes all such records, data and information stored electronically digitally or non-computer related media. Maintenance of financial records refers to keeping records up to date with current financial transactions maintenance should be in accordance with generally accepted accounting principles. Financial records are made up of two key components namely;

- Evidence of your income and expenses
- Your accounting system or ledger system

These components together, should be designed and organized in a matter that helps

Evidence of Income and Expense

This evidence can exist in many forms, but the more precise and thorough the documentation the company has the better. Example of financial documentation include; monthly bank and credit card statements, invoices, and bills that organizations has paid. Pay roll processing documents receipts for your documents and or bank transactions, bank deposit slips, deposit logs, purchase approval forms, cancelled cheques, expense reports, reimbursement requests and petty cash slips.

When planning the organization of your financial records it is important to think of the ways in which to use them and who might need to access the information. The people who might need access to the financial record include;

- Board of director: They may be legally responsible for your financial management.
- Staff and volunteers: They are involved in program management or financial management who should be able to participate in monitoring your organizations financial health.
- Current donors: They want to ensure that their funds are used in a way that they authorized.
- Local and federal government: They receive registered organizations to file annual returns and undergo regular audits.

Setting up a Filling System

Given the presence of many different kinds of financial documents, it is imperative that the organization have an organized system for the records. The filling system should allow retrieval of records at some point when referrals need to be made. Regardless of which categories you use to file records the documents should be divided up to further categories for example the organization must keep track of incoming funds divided into files for each grant with a separate file for individual donations.

Tracking Receipts: The organization should have a clear written policy, governing how funds are spent. In no case should only one person be in charge of handling funds or approving expenditures in senior to the person who spends the funds in order to keep track of the approvals these simple forms should be available.

Purchase order: A form used by stuff person to request funds to pay for a purchase of goods and services should include at a minimum the name of the stuff person name of the firm and services and goods.

Deposit tag: Contains list of funds to deposit such as donations or grant funds.

Table 3: Example of a balanced sheet

Financial measures 12/31/2015	
Balance sheet amount	Income statement
Current asset 8500	Gross revenue 60000
Current liabilities 4200	Operating expenses 16250
Total assets 70000	Labor 12,500
Total liabilities 42000	Internet expense 3750
	Depreciation 2000
	Net 25500

Conclusion

This learning outcome covered; farm accounts, types of farm records, financial documents i.e. various types of financial documents

Further Reading

1. Journal on farm budgets farm plan, total budget and financing budget page 73-78
2. Journal on financial recording for farmers and ranchers AGEC-302

9.3.4.3 Self-Assessment

Written assessment

Multiple-choice questions

1. The following are factors considerable and demand analysis when development a farming plan which one is not?
    a) A farm budget
    b) Operation resources
    c) Specialization as opposed to diversification
2. Which one of the following does not enterprise budget?
    a) Fixed cost
    b) A whole farm budget
    c) Income
3. Which one of the following best explain one of the should be looked at when setting a financial priority?
    a) It is the path of the farm crucial for general production.
    b) Should they be set in terms of losses
    c) Which growth has not been achieved in the previous years and months?
4. The following shows steps of locating finances to an agriculture, which one does not?
    a) Goal driven priorities
    b) Sticking priorities
    c) Fixed ownership priorities
5. Enterprise budget is constructed a per?
    a) Per acre
    b) Per several enterprises
    c) per two heads producing different entities
6. Differentiate between farm records variable and land fixed cost.
7. Give two examples of fixed ownership
8. Differentiate between farm and budget financial statements
9. Give three component of enterprise budget development

Oral Assessment

1. Explain how an enterprise budget is constructed
2. Explain how monitoring of financial operations takes place

Case Study Assessment

A certain agricultural farm has been making profits over the past one year. Due to their good performance donor wishes to expand their farm enterprises has allocated them find. As a farm manager you have been given the assignment of identifying the best performing enterprise to allocate funds. What priorities and factors would you consider in allocating finance?

Practical Assessment

1. Prepare a balance sheet of the school dairy unit and show it relates to the whole farm budget by visiting the farm and as a volunteer request for dairy unit records.

9.3.4.4 Tools, Equipment, Supplies and Materials

- Flip charts
- Note books
- Ruler
- Text books and manual
- Projectors
- Computers
- Ledger books
- Receipts
- Voucher
- Balance sheets

9.3.4.5 References

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