

APPENDIX 1: Income Statement: a financial account and a management account compared

FINANCIAL ACCOUNTS	Kshs000	MANAGEMENT ACCOUNTS	Kshs000
Crop sales	215,000	Wheat output (2016 harvest)	240,000
Fodder sales	4,000	Adjustment for output from previous years crops	20,000
		Dairy output	100,500
		Beef output	12,500
Livestock sales	130,500	Output from home grown fodder crops	5,000
Grants and subsidies	0	Output from tillages	7,692
		Miscellaneous revenue	24,000
Sundry revenue	24,000	Single payment	20,000
Single payment	20,000	Imputed rental value of farmhouse	5,000
Total sales	393,500	Total farm output	434,692
Opening valuation	161,454		
<i>Purchases: Variable costs:</i>			
Seeds and fertilisers	50,105	Seeds and fertilisers	50,605
Chemicals and sundry	55,609	Chemicals and sundry	56,209
Feedstuffs	39,781	Feedstuffs	40,181
Purchased fodder	4,000	Purchased fodder	4,000
Livestock	25,000		
Vet, medical and sundry livestock costs	5,904	Vet, medical and sundry livestock costs	5,404
Closing valuation	211,646		
Cost of sales	130,207	Total variable costs	156,399
Gross profit	263,293	Total farm gross margin	278,293
<i>Overheads:</i>		<i>Fixed costs:</i>	
Fuel	15,000	Fuel 15,000	
Machinery, motor and contract	30,000	Machinery, motor and contract	30,000
Property repairs and maintenance	25,000	Tenant type repairs	15,000
Office and stationary	4,000	Office and stationery	4,000
Wages	60,000	Labour (paid) (excluding management)	60,000
		Labour (unpaid) (excluding farmer and spouse)	10,000
Bank charges	500	Bank charges	500
Interest	5,500		
Rent	15,000	Rent	15,000
		Rental value (owner occupiers)	25,000
		Imputed rent on tenants improvements	5,000
Accountancy and professional fees	5,000	Accountancy and professional fees	5,000
Other overheads	10,500	Other fixed costs	10,000
Depreciation	12,700	Depreciation (machinery, perm crops and glasshouse)	17,500
Less profit (loss) on sale of assets	1,000		
Total overheads	182,200	Total fixed costs	212,200
Net profit	81,093	Net Farm Income	66,093

Appendix 2: Reasons for differences

1. **Why does total farm output not equal total sales?** Total farm output includes the imputed rental value of the farmhouse, and opening and closing valuations, as well as sales.
2. **Why are variable costs different to purchases (for example, seeds and fertilisers is Sh.500,000 higher in the management account)?** In the management account, variable costs include the change in the opening and closing value of seeds and fertilisers in store.
3. **Why is total variable costs different to cost of sales?** Cost of sales includes the change in the opening and closing value of livestock and crops in store.
4. **Why is total farm gross margin different to gross profit?** As well as the reasons in the three questions above, you should also take account of the following. (a) In the management account, output stocks (that is, the opening and closing values of crops in store and livestock on the farm) are valued at market prices rather than their production costs. (b) Total farm gross margin does not include breeding livestock stock appreciation.
5. **Why are tenant-type repairs different to property repairs and maintenance?** Tenant-type repairs do not include repairs that a landlord would be expected to carry out (for example, major repairs to the structures of buildings).
6. **Why are other fixed costs different to other overheads?** Other fixed costs do not include buildings insurance (as this is a landlord-type expense).
7. **Why is the depreciation amount different in the management account?** In the management account, depreciation:
 - (a) is based on the current replacement cost rather than the historic cost;
 - (b) does not include buildings depreciation (because buildings are a landlord-type asset and net farm income assumes all farms are run by tenants rather than owner-occupiers); and includes profit or loss on asset sales.
8. **Why are total fixed costs different to total overheads?** As well as the answers in questions 5 to 7 above:
 - (a) total fixed costs include the rental value of owned land and an imputed rent on tenants' improvements; and
 - (b) total fixed costs does not include interest charges.