



Ministry of
Agriculture
and Food

Towards Increased Profits (TIP) Report

The Ministry of Agriculture and Food is pleased to provide you with your requested personalized, free, and confidential ***Towards Increased Profits (TIP) Report***. The *TIP* Report is a simplified farm financial analysis, which provides you with a cost of production (COP) report to compare your own farm (income and expenses) to other farms of similar type (benchmarks).

This report is intended to enable your farm to identify areas of strength and weakness to improve your competitiveness, productivity and ultimately your net income. Your *TIP* Report is based on information you provided to the AgriStability (AS) and/or AgriInvest (AI) Programs through the Canada Revenue Agency (CRA). A full description of how the information in this report is collected, calculated, and compared is contained in this document, along with Ministry programs and services to help you move forward with your goals.

If you have any questions or concerns regarding your *TIP* Report, please contact Gary Flaten, Farm Business Specialist.

Best regards,

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BC Ministry of Agriculture and Food
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Statement of Farming Income

While your *TIP* Report is based on data from the Canada Revenue Agency (CRA) (from your T1273, T1274, Statement A or B submitted to the CRA for benefits under the AgriStability and/or AgriInvest programs), there may be unintended errors. If you have any concerns about the accuracy of this report, please review the information supplied to the CRA. If you still think there is an error, please contact Gary Flaten, Farm Business Specialist.

Privacy

The Ministry places the highest priority on maintaining the confidentiality of information including preventing identification of a specific agricultural operation or individual in the industry benchmarks. Therefore, a minimum sample size is maintained to protect the privacy of individual producers.

Farm Type & Size

The report first classifies your operation by type and sales range. Farms are classified by farm type when more than half of total farm sales come from sales of a specific commodity or group of like commodities. For example, a farm is classified as a Grains & Oilseeds farm if your farm sales are 52% from Grains & Oilseeds and 48% from Cattle, Cow/Calf. The sales range is determined based on total commodity sales. For instance, a farm with sales of \$250,000 is grouped with farms that have sales ranging from \$100,000 to \$500,000. Note: due to above grouping, your farm may not align with the benchmarks provided. This report involves some interpretation of the results and should be viewed as such.

Industry Benchmark

The report compares your operation to other farms of similar type and sales range. Industry benchmarks are derived from the AgriStability and AgriInvest participant data supplied to British Columbia from CRA. Each industry benchmark is the median or middle value from the group of ranked farms of that type and size. Some caution is warranted in drawing conclusions from these comparisons given possible issues arising from the values within these ranges. In addition, the category comparisons may be irrelevant for mixed operations. In the example above: where 52% of sales are from Grains & Oilseeds and 48% Cattle-Cow/Calf, are categorized the same as a straight grain farm, their operations, and financial results maybe quite different.

Note: The industry benchmarks (as noted earlier) use median values for each expense item listed. As a result, individual expense items may not add up or equal the margin and/or total values.

Method of Accounting

The report uses income and expense information as provided to the CRA. Since the majority of farmers file to the CRA using the cash method of accounting, values may differ from those used in your AgriStability benefit calculation. Cash accounting does not reflect fiscal year adjustments for changes in inventory, accounts receivable, or accounts payable. In some instances, this may cause the analysis to highlight strengths or weaknesses resulting from income tax management or cash flow decisions, not farm management performance. Since this analysis is mostly on a cash, not accrual accounting basis, you may want to work with your farm management professional or accountant who may assist you to complete a more thorough financial analysis.

Definitions and Display

The terms allowable and non-allowable are used strictly to classify income and expenses into categories that the AgriStability program uses to calculate benefits. For example: expense code 9811 Rent (land, buildings, pastures) is an expense the producer will incur, but the AgriStability program classifies code 9811 as non-allowable and as a result, does not include this expense in the margin calculations for benefit purposes.

Note: You may notice on your *TIP* Report that some codes are not displayed or there are no values shown (either a zero or blank). The *TIP* Report only displays the expense items you have reported to CRA.

Gross Farming Income

Gross Farming Income (GFI), for the purposes of the *TIP* Report, is the sum of allowable and non-allowable income (as defined by the AgriStability program). Allowable income consists of Commodity Sales and Program Payments. Non-allowable income consists of Other Farming Income, for example: code 9601 Agricultural contract work. GFI does not reflect accrual adjustments for changes in inventory or accounts receivable for cash tax filers.

Expenses

Expenses for the purposes of the *TIP Report* are classified as allowable and non-allowable expenses (as defined by the AgriStability program). The detailed list of your expenses is provided on your report for the current year, the previous five-year average, and the industry benchmark. The expense indicators compare your current year value to the industry benchmark.

Note: Due to differences in interpretation of these expenses and possible categorization, some anomalies may occur. For example: codes 9801 Freight and Trucking may inadvertently be lumped together with 9764 Machinery (gasoline, diesel fuel and oil) and reported as only one code. When expenses are not reported accurately and /or consistently, the result can be misleading due to interpretation and classification, not the farm's operation. Expenses do not reflect accrual adjustments for accounts payable for cash tax filers.

Indicators

Indicators are designed to show you how you compare to other similar farms through a colour system: clear (blank), green (good), yellow (caution) or red (concern). These colour indicators compare Your Farm to the Industry Benchmark.

Criteria: There are two criteria that must be met before an indicator becomes coloured:

1. Your Farm expense item must be greater than 5% of GFI (Gross Farming Income).
2. The difference between Your Farm and the Industry benchmark must be greater than 5%.

Purpose: The reason for the limited coloured indicators is to flag and bring attention to expense items that are significantly different than the benchmark. The intent is to draw the attention of the producer to areas to concentrate their efforts on first, rather than being overwhelmed if every line displayed an indicator and not knowing what to focus on.

Summary: On the Cost of Production page (page 2), in the “Your Farm compared to Industry Benchmark” (last column on the right), a clear (or blank) cell implies that this expense item is not significantly large and/ or significantly different than the industry benchmark. Green (good) indicates you are equal to or better than the industry benchmark for that ratio or expense line. Yellow (caution) indicates you are performing better than but reasonably close to the benchmark and you may want to investigate further. Red (concern) indicates that your farm is performing considerably poorer than the industry benchmark and may warrant careful analysis. It may also mean that the farm type used is not a reasonable benchmark for your farm.

Production Margin

The Production Margin for the purposes of the *TIP* Report is computed as allowable income minus allowable expenses (as defined by the AgriStability program). The production margin does not reflect adjustments for changes in inventory, accounts receivable, or accounts payable and may not match your actual AgriStability production margin figures.

Net Margin

The net margin for the purposes of the *TIP* Report is computed as Gross Farm Income minus total expenses. ((GFI includes both allowable and non-allowable income and total expenses include both allowable and non-allowable expenses (as defined by the AgriStability program)).

Financial Efficiency (Operational) Ratios and Measures

Financial efficiency gauges how economically your farm is using its assets to generate a profit and are closely linked to a farm’s ability to control costs. Operational ratios for selected variable expenses compare the amount of the expenses to income. Variable expenses have a large impact on the profitability of a farm and are generally more controllable than fixed costs. Operational ratios cannot be used by themselves, as indicators of good or poor performance. Rather, operational ratios shed light on areas that are strong and ones that you may wish to explore further.

Summary

Your *TIP* Report will include:

- A Cost of Production page – with your farm’s income and expense items for your current year, your farm’s five-year average and an industry benchmark with indicators.
- Five Financial Efficiency (Operational) comparisons including your direct expense, operating cost, machinery, land & building and overhead expense ratios.
- Six Financial Measures over time including your Gross Farming Income (GFI) and the previous five Financial Efficiency (Operational) ratios mentioned above.

We hope this *TIP* Report will assist you in identifying opportunities to improve your financial awareness in the context of other farms of similar type and sales range with the goal of increasing your profitability.

Request / Consent

Once you have requested / consented a *TIP* Report, you will be mailed a *TIP* Report on a yearly basis, unless you inform us otherwise (you always have the choice to opt out). The report will be provided to all AgriStability clients at no cost as a free benefit for being part of the AgriStability program.

Further Analysis

Individuals wishing to have a more complete farm management analysis are advised to explore the BC Ministry of Agriculture and Food Programs, Services and Resources listed below. Producers may also wish to contact Gary Flaten, Farm Business Specialist or other Ministry of Agriculture and Food staff. In addition, producers may want to consult with their farm management professional or accountant.

British Columbia Ministry of Agriculture and Food Programs, Services and Resources

The British Columbia Ministry of Agriculture and Food has excellent tools and information to help you manage your farm business. For more information on:

- **Benchmarking** and improving your farm's performance:
<https://www2.gov.bc.ca/gov/content/industry/agriculture-seafood/business-market-development/agrifood-business-management/running-a-farm-business/production-economics>
- **Specialized Business Planning** cost-share funding available through the B.C. Agri-Business Planning Program:
<https://www2.gov.bc.ca/gov/content/industry/agriculture-seafood/programs/agri-business-planning-program>
- Agriculture Income Protection (**AgriStability** and/or **AgriInvest**) Programs:
[Insurance and Income Protection - Province of British Columbia \(gov.bc.ca\)](https://www2.gov.bc.ca/gov/content/industry/agriculture-seafood/programs/agri-business-planning-program)
- A full listing of agriculture programs with information, publications and application forms are available on the Ministry's website at:
<https://www2.gov.bc.ca/gov/content/industry/agriculture-seafood/programs>

*This report is adapted with permission from Ontario's Ministry of Agriculture, Food and Rural Affairs' (OMAFRA) Towards Increased Profits (TIP) Report.