

How Do You Think About Spending Money In Your Business?

2020 SPRING TURN OUT GRAZIER MEETING

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Spending Money In Your Business - Think

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Spending Money In Your Business - Think

Business Spending Areas:

- Twelve months or less useful life – operating spending
 - feed, fuel, repairs, fertilizer, etc...



Spending Money In Your Business - Think

Business Spending Areas:

- Greater than twelve months useful life – capital spending
 - fence, tractors, haying equipment, handling equipment, land, buildings, etc...



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Tonight's Discussion - Capital Spending



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The Famous Question

How much is the monthly payment?



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The Famous Comment

I like lower monthly payments since there's
less pressure on cash flow.



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Another Famous Comment

The payment from my other capital item is almost done, when it is, I will replace it with my new payment.



Spending Money In Your Business - Think

You're putting money in, how much money
are you getting out?

This is the beginning!



Spending Money In Your Business - Think

Will My Capital Investment:

- 1) Help me generate more income than I am already generating?
- 2) Create efficiencies in my operation which decrease operating costs?
- 3) Help maintain my existing ability to generate income, I.e. – replace depreciated assets.



Annual Capital Investment Budget

Added Income
Reduced Expenses

Increased Costs
Reduced Receipts



Annual Capital Budget - \$10,000 High Tensile Fence

Income Factors

Sell 10 additional cattle per year - \$12,000

Reduced fence repairs - \$750

Added Income - \$12,750

Cost Factors

Cost to raise 10 additional cattle - \$10,000

Loan principal and interest - \$2,237

Added Costs - \$12,237

Note: if borrowed funds are not necessary consider depreciation and opportunity cost as replacements for principal and interest



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What if your investment has no positive influence on your income stream?

Then, your existing income stream must handle the payment!



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Rule of thumb:

Create the income before creating the
cost!



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Questions, Comments, Concerns?

Thank you!

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