



# Business Records Best Tool Around For Sod Growers

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**H**OW IMPORTANT is management to success in the sod business? You will probably agree that financial success is unlikely if poor management exists.

What influences the level of management? Well, there are undoubtedly a number of personal characteristics of the manager, such as experience, ability and attitudes, that have an affect on management performance. However, assuming the manager has the personal characteristics to permit good management, the level of management necessary for business success may not be attainable simply because he does not have the necessary tools with which to work.

Could you overhaul a tractor without using tools? That's a silly question—but it's just as silly to try to manage your business without using the tools available to you.

Good business records are the basic tools of management. Without them, critical limitations are placed on management and, consequently, on financial success.

The sod business is no different from any other business when it comes to keeping and using business records. The sod producer often

finds himself in that same type of "cost-price squeeze" experienced by other businesses which without sound management, may subsequently result in business failure.

The beginner in the sod business or the sod grower who is expanding his operation has the additional problem of sustaining rather heavy accumulated costs before receiving any offsetting income. The nature of the business is such that a somewhat lengthy cost-incurring period of time may be necessary before obtaining a salable product. This amplifies the importance of sound financial planning to which business records can make a significant contribution.

Most sod producers will say that records are good. But what real value can be forthcoming from keeping business records? There is little or no return for the time expended in record-keeping if they are not accurate, complete and, most important, used.

Concerning the usefulness of records, there are several basic needs that records should fulfill if they are to contribute to the management of the business. These needs may be classified in the following categories:

- A. the **service** need
  - B. the **diagnostic** need
  - C. the **credit** need
- (continued)

## TRIAL BALANCE

Year-Ended 12/31/7-

Account Number	Account Description	Cash Disbursements	Sal
100	Cash on hand		
101	Cash in bank		
102	Accts. Receivable		
110	Est. Uncollected Acct.		
115	Notes receivable		
120	Inventory-growing sod		
121	Inventory-cut sod		
122	Inventory-supplies		
130	Prepaid insurance		
131	Cash value life Ins.		
132	Misc. prepaid items		
150	Land		
151	Land improvements		
151A	Land Improvements-Amort.		
152	Leasehold		
153	Building		
153A	Building-Depreciation		
154	Mach. & Equipment		
154A	Mach. & Equip. Dep.		
155	Autos & Trucks		
155A	Autos & Trucks Dep.		
156	Office Furniture		
156A	Office Furniture Dep.		
200	Accts. Payable		
201	Notes Payable		
210	Accrued expense		
211	Sales Tax payable		
213	Real Estate Tax		
220	Withholding Tax		
221	FICA Tax		
222	Other Payroll Withholding		
223	Unemployment Tax		
250	Income Tax-Federal		
251	Income Tax-State		
252	Income Tax-City		
275	Long Term debt		
280	Capital Invested		
281	Paid in surplus		
282	Withdrawals		
283	Dividends		
284	Earnings-prior period		
285	Earnings-current period		
<b>SALES</b>			
	Retail Sales-Sod		
2401	Meriod		
2402	Flyking		
2403	Creeping Bent		
2404	Kentucky Blue		
	Wholesale Sales-Sod		
2401	Meriod		
2402	Flyking		
2403	Creeping Bent		

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### MEETING THE SERVICE NEED

This category is the most obvious and the one for which sod growers recognize they need some records of some kind. This need involves using record information for completing tax forms, for meeting the increasing number of labor record requirements, and for other reports that are solicited from time to time.

Many sod growers overpay their taxes simply because they do not keep a complete account of income and expenses. Sales may be recalled fairly accurately since they are usually seasonal and for relatively large amounts. However, many expenses are scattered throughout the year and are often overlooked.

Tax planning is an important function of management. Often the shifting of income or expenses, through delaying or in some cases expediting business transactions, from one tax period to another can significantly reduce the tax liability. Also, choosing the appropriate depreciation treatment for depreciable assets, based on the tax position of the business, can affect the short and long-run tax burden. Considerable tax savings may be going down

the drain for failure to maintain adequate business records for evaluating tax management alternatives.

### MEETING THE DIAGNOSTIC NEED

The **diagnostic** need has to do with using records for locating the ills of the business. In this sense, records are comparable to the physician's stethoscope. They permit you to "feel the pulse" of the business, locate the strong and weak points. This process involves cost control and determining production and efficiency factors that will provide indications of where problems may exist in the business.

The first step, of course, is identifying production costs. This is very basic to diagnosing the sod business or any business for that matter. The cost per square yard of sod has a primary bearing on sale price.

To take steps to reduce cost, you need to know what comprises total cost; which costs vary with volume of production and which costs do not (fixed costs). Efforts to reduce the cost item that makes up only 5% of the total cost is hardly worth it, but efforts to significantly reduce the cost item that comprises  $\frac{1}{3}$  of total cost may pay off very handsomely.

Thus, to determine where to apply cost management efforts for the greatest favorable influence on suc-



cess, you need to know your costs, and records are an essential tool for meeting this need.

Not only is it important to identify total costs, it is also helpful to classify them as to sod establishment, maintenance and harvest costs. If your sod operation includes installation and delivery, the costs associated with these activities should be delineated.

Labor, machinery and capital efficiency measures can be obtained from record information. Such factors as acres of sod per man, maintenance machinery cost per acre of sod maintained, harvest machinery cost per square yard of harvested

sod, machinery-labor substitution, percent return on investment and receipts per dollar invested may reveal some areas where profitable adjustments could be made. These kinds of factors are especially helpful when you have some industry standards or guidelines for comparison.

It is important to remember that business records help to diagnose the nature of the "illness" but they do not prescribe the "cure." Records provide the tool for locating inefficiencies and high cost areas, but it takes further management investigation to determine the best corrective action. Any sod producer desiring to improve his business organization and operations must start by analyzing past performance, and business records provide the tool for this analysis.

Business success hinges also on management's ability to plan ahead. Forward planning can often be strengthened by referring to what has occurred in the past. Knowledge of past business performance, available from business records, will provide a basis for budgeting future business transactions.

### MEETING THE CREDIT NEED

The **credit** need which business records should fulfill has gained in importance in recent years. The increasing capital requirements and related major role of credit in the sod production business require managers to keep a close surveillance on the financial position of their operation. This phase of management is sometimes called financial management and involves using business records for preparing profit or loss, net worth and cash flow statements.

The profit or loss statement, in addition to showing the earnings of the business for a particular **period of time**, reveals the amount of cash generated by the business to repay old debt, to meet living expenses and to make new investment. This statement will provide clues concerning cost control but may not fully meet the needs for determining where inefficiencies exist within the business.

The net worth statement or balance sheet consists of assets, liabilities and net worth, and provides a picture of the financial position of the business as of a particular **point or date in time**.

Thus, the net worth statement presents a "snapshot" of the business whereas the profit or loss statement presents a "movie" of the  
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## BUSINESS RECORDS

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business.

The net worth statement indicates the value of assets that would remain if the business was liquidated and all outside claims against it were paid.

The profit or loss statement and net worth statement provide valuable information for preparing ratios that will test the liquidity, solvency and profitability of the business. These measures are important to both borrower and lender when evaluating the acquisition of capital.

The current liabilities section of a net worth statement will show the obligations due within the next twelve months. The profit or loss statement will indicate the success of the business in generating funds to meet these obligations.

The cash flow statement shows the cash in and out of the business by specified periods of time and may be referred to as a calendar with receipts and expenses plotted on it. It includes, in addition to ordinary cash income and expenses, payment on current debts. The cash flow provides a pattern of the flow

of business transactions and it will help to avoid financial disaster resulting from poor scheduling of debt repayment.

A word of caution—if a diagnosis of your sod business suggests some adjustments, beware of the implications the adjustments might have on the business cash flow. This word of caution is especially important if the adjustments to be made involve the use of much borrowed capital.

If you agree that management has a major influence on success in the sod business, why not give it the appropriate business records to work with? When you hire employees you are expected to provide them with the tools to do the job for which they were employed. Management, likewise, must have tools to do its job, and a good set of business records is first on the list.

Review your present system of business records and, if it does not meet the three basic needs, take the necessary steps to "get with it" so that management will have the tools to perform effectively—before it's too late!

Take a look at the newly developed ASPA "Chart of Accounts" system. This may be the answer to your business record woes. Also,

check out the various record systems available through the Land Grant University in your state. These can usually be obtained through your local extension service agent.

If the manager's tool kit does not contain his potentially most valuable tool—an appropriate and well maintained business records system—the quality of the management job and the profit from his business are bound to suffer. Can any sod producer afford to be without this tool? □

## Three Day Summer Meeting Set By ASPA For July

Sod producers and commercial suppliers of the sod industry will be converging upon Denver, Colorado on July 16 for the annual summer meeting and field day of the American Sod Producers Association.

The three-day event — beginning with registration on the evening of July 16 and concluding with the field demonstration of sod equipment on July 19 — is expected to attract a record attendance from within as well as outside the United States.

The host organization, the Rocky (continued on page 36)

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