



FOR THE LIFE OF YOUR BUSINESS

Farm Financial Management



Owners Wear Many Hats.....

- Planning – Decision making
- Financial Management
- Time Management
- Control – Costs and Pricing
- Marketing
- Financial and Business Records
- Personnel Management



A Business Plan is a structured approach to addressing these

Do I Really Need a Business Plan?

- A well done business plan:
 - Defines what you want to accomplish
 - Sets expectations for you and for others, such as employees, your banker, and advisors
 - Identifies challenges
 - Identifies opportunities
 - Sets priorities for the year
 - Projects financial performance

Business Plan Helps Answer Common Questions

- Why don't I have any money in my account?
- How do I maximize profits?
- Which activities make money & why?
- I want to grow but where should I focus?
- Can I afford additional loans?
- How do I make sure there is enough cash to make it through next winter?
- How will I market, sell & deliver my products?

Financial Information – Who Needs It?

- Farm owner
- Tax preparer
- Lenders
- Agencies
- Partners



Record Keeping

- Household budget
- Separate business & personal accounts
- Cash basis
- Production inputs & yields
- Financial records
- Need a system
 - QuickBooks
 - Other software
 - Spreadsheet
 - Manual
 - Supporting documents



Financial Analysis



- Comparisons
 - Last year
 - Plan (expectations)
 - Similar producers
- Benchmarking
 - Standards at successful farms
 - Farm data resources
- Projections

Financial Management

Financial statements:

- More than scorecards
- Tools

Financial Management is using information in financial statements to:

- Manage
- Control
- Improve overall business



Why Do I Need To Understand Financials?

- To ensure the business is financially healthy
- To ensure sufficient cash is available to operate the business (seasonality)
- To make financially sound business decisions
- To protect your investment
- To plan for future expansion
- To analyze the business with a goal of improving cash flow, profitability and the overall strength of the business

What are Financial Statements?

- **Balance Sheet**
- **Income Statement**
- **Cash Flow Statement**



© Can Stock Photo - csp12359753

What is a Balance Sheet?

- Assets – what you own
- Liabilitys – what you owe to others
- Owner's Equity – resources invested by the owner
- $A \text{ minus } L = OE$

BALANCE SHEET: *Hen Pecked Farm*

DATE: *June 28, 2017*

| FARM ASSETS | | VALUE | FARM LIABILITIES | | VALUE |
|----------------------------------|--|-------|--|--|-------|
| Current Farm Assets | | | Current Liabilities | | |
| Cash and Checking Balance | | | Farm Credit Card | | |
| Supplies on Hand | | | Balance Farm Loan - Due in 12 months | | |
| Prepaid Expenses | | | Credit Lines | | |
| Growing Crops | | | Accounts Payable | | |
| Accounts Receivable | | | Farm Property Taxes Due | | |
| Market Livestock | | | Other Current Farm Liabilities | | |
| Other Current Assets | | | | | |
| Total Current Farm Assets | | | Total Current Farm Liabilities | | |
| Intermediate Farm Assets | | | Intermediate Farm Liabilities | | |
| Breeding Livestock | | | Loans on Intermediate Farm Assets | | |
| Machinery/Equipment | | | Balance Farm Loan - Final Pay 1-10 years | | |
| Farm Vehicles | | | | | |
| Other Intermediate Assets | | | | | |
| Total Intermediate Assets | | | Total Intermediate Liabilities | | |
| Long-Term Farm Assets | | | Long-Term Farm Liabilities | | |
| Farm Land | | | Loans on Long-Term Assets | | |
| Buildings and Improvements | | | Balance Farm Loan - Final Pay > 10 years | | |
| Other Long-Term Assets | | | | | |
| Total Long-Term Assets | | | Total Long-Term Liabilities | | |
| TOTAL FARM ASSETS: | | | TOTAL FARM LIABILITIES: | | |

Total Assets (Market Value) - Total Liabilities = Net Worth _____

5

What is the Income Statement?

Income Statement

- Revenue
- Expenses
- Profit (loss) for the period
- Net Income = Profit

Table 1. Income statement.

| | |
|----------------------------|-----------------|
| Income | |
| Sale of Crop Products | \$50,000 |
| Sale of Livestock Products | \$25,000 |
| Government Payments | \$10,000 |
| Total Income | \$85,000 |
| Expenses | |
| Seed | \$10,000 |
| Fertilizer | \$20,000 |
| Feed | \$10,000 |
| Processing | \$10,000 |
| Marketing | \$5,000 |
| Interest | \$5,000 |
| Depreciation | \$10,000 |
| Total Expenses | \$70,000 |
| Net Income | \$15,000 |

Revenue/Sales

WHAT IS REVENUE?

revenue \neq **profit**



- Record all revenue
 - Cash
 - Credit & debit cards
 - On account
 - Barter
- Products
- Services
- Delivery charges
- Other?

Sources of Revenues

- Sale of Products
- Sale of Services
- Grants
- Government Payments

What Determines Profitability?

- **Sales Volume** – how many plants, pints, quarts, bulbs, pounds, head, sides, ... of the item sold?
- **Pricing** – prices of products...differentiation in the market for quality, service, organic & other value added
- **Operating Expenses** – costs going into products....production, operating, marketing, storage, etc.
- **Overhead Expenses** – rent, insurance, interest, etc.

How Do I Increase Profitability?

- Higher prices – quality, service, value added
- Higher production – more acres, more animals, more units
- Lower expenses – start with the larger line items & determine ways to cut some expense
- Eliminate any discretionary expenses – travel, things that can wait until next year

Above Average Profits?



- Requires better than average management
- Get higher prices
- Reduce input costs
- Reduce labor costs
- Reduce ownership costs

Profitability

- Revenues = \$40,000
- Expenses = 30,000
- Net Profit = \$10,000



Profitability – Drill Down

Vegetables

- Revenues = \$30,000
- Expenses = 15,000
- Net profit = \$15,000

Goats

- Revenues = \$10,000
- Expenses = 15,000
- Net loss = (\$5,000)

To increase profits what should I do?

Analyze Profitability

- Keep good records
- Requires some cost accounting
 - Planting
 - Growing
 - Harvesting
 - Marketing/delivery
- Include your labor
- Allocate overhead proportionately

Cash Flow Statement

Sources of Cash:

- Revenue
- Grants
- Government Payments
- Sale of Assets
- Loans
- Owner & Other Investments
- Other Income

Uses of Cash:

- Business Expenses
- Asset Purchases
- Loan Principal Payments
- Owner Draws

Cash Flow Management



- Current period
- Projected period
- To sustain your farm **cash in** must exceed **cash out**
- When you're out of cash you're out of business

Farm Finance Scorecard

- Benchmarking guidance from UVM
- <https://bit.ly/2QzTfUd>
- Stop light analogy
 - Red = vulnerable
 - Yellow = acceptable
 - Green = strong
- Examples
 - 4. Farm debt to asset ratio
 - 8. Rate of return on farm assets

Summary

- Develop a business plan
- Keep good records
- Understand your financials
- Do some financial analysis
 - Profitability drill down
 - Comparisons with successful farms
- Seek assistance from SCORE, Cooperative Extension, FSA, Farm Credit, bankers & others