

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



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What is a Balance Sheet?

BALANCE SHEET: Hen Pecked Farm

- <u>Assets what you own</u>
- <u>L</u>iabilities what you owe to others
- <u>Owner's Equity</u> resources invested by the owner
- A minus L = OE

FARM ASSETS 📃 VAI	UE 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

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DATE: June 28, 2017



What is the Income Statement?

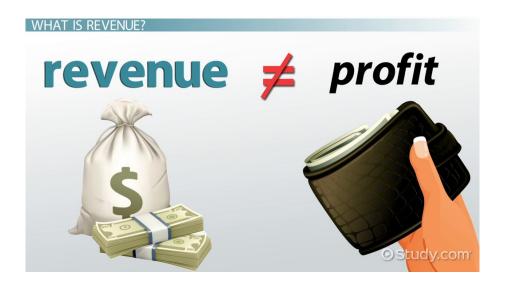
Income Statement

- 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		
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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



- 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

