

An Introduction to Farm Financial Analysis

Part 1: Where do I Start?



North Carolina A&T Producer Meeting

August 5, 2020

Presented by: Bruce Fowler and DelRay Lecy

About the Presenters...

Bruce Fowler



- B.S. and M. Ed. in Ag from the University of Missouri
- Ag Education Instructor from 1985-2013
Putnam Co. High School, Hannibal, Mark Twain High School (Ralls Co. Schools)
- MO Farm Business Management Association Coordinator from 2013-Present
- Currently lives on Family Farm, some of land is Century Farm, bought in 1848 (us-2013)
- Farm Bureau, MO Cattlemen's member

About the Presenters...

[DelRay Lecy \(De\)](#)



- B.S. in Ag Education/Ag Economics and M.A. in Education from the University of Minnesota
- 10 years experience as Farm Management / Post Secondary Agriculture Instructor
- 26 years experience as College Dean in charge of Farm Business Management programs & publication of data
- Currently working with FBM Special Projects through Central Lakes College, MN

Please introduce yourself...in the chat box

- What county do you live in?
- How many years of experience in farming?
- What crops & animals do you raise?

Please introduce yourself...in the chat box

- If not a farmer, what do you do?
- What is ONE question that you would like answered during our discussion today?

ALSO: Enter your email address in the chat box for future communications

As we begin...

- We have some questions for you to think about...
- We will share a few definitions...
- We have some questions about the value of money in your business...
- And, we will briefly review some reports that provide information to help make decisions...

Some introductory questions...

Are you farming to make money?

OR

Farming as a hobby because you enjoy it?

Would an extra \$1,000 help pay for family living expenses?

OR

Is paying for family living not a problem for you?

If you are doing this for the enjoyment...,
and

You have adequate income to cover
family living...

then

You may find it challenging to apply our
suggestions

because

You are satisfied with your current
methods

If you are doing this to make money...

and / or

You could use more income to cover family living...

then

Our suggestions will make a difference

IF...

you apply them to your business

As we continue, a few more questions...


- What are your goals for your farm business?
 - Where do you want to go...how do you want to get there?
- What part of your farm business will make you the most money right now?
- What are the overall strengths of your business?
- What are the weaknesses of your business? (Do you have a plan to work on these?)
- If you try something new, how do you know if it was a financial success?
- How does your farm compare to similar farms?

If you do not think you have enough information to answer...

- Our goal is to provide suggestions that would enable you to better answer all those questions
- Some general thoughts:
 - A farm analysis would be a great tool to provide the needed information
 - To complete a farm analysis you need records of income, expense, and inventories.
 - In order to track your income, expense and inventories, you need to develop the habit of thinking about records first.

A few definitions...

Recordkeeping: The **habit** of tracking all income and expense for a farm business by recording all business activity using paper or computer records



Financial Analysis: Calculating financial factors using your **records** to help make better decisions about your business...on an annual basis

Farm Financial Benchmarking: Figuring out how your farm (**analysis**) compares with other farms like yours

Lets look at some examples of reports you can use if you provide the needed information...

- Vegetable Farm Analysis – What the individual farm looks like
- Vegetable Producers "Average" Report – What a similar group looks like

How important is \$1,000 to you?

- What could your purchase for the farm business?
- What could you purchase for your personal use?
- Would you invest that in a retirement account?
- Would you use it to help take some time off in the form of a vacation?
- Or, is it not that valuable because that amount of money is not enough to matter?

How do you know if you are bringing every possible \$1,000 lump sum into your pocket right now?

- Have you accounted for every dollar...when you total your gross income?
- What inputs should you change to reduce costs and improve income?
- Which crop or animal that you raise produces the most income and could be expanded?
- Is there a new crop that you could raise that may provide more income?
- Are you generating as much income from crops and animals as similar farms in your area?


What good is \$1,000 anyway?

- If you take \$20 per week out of your cash draw each year, you used \$1,040 for something...
- If it costs \$100 per acre for one crop expense, it would cover that expense for that acre for 10 years...
- It would provide an extra \$83.33 per month for groceries or another family living expense...
- If invested one time, at a 6% return, you would have \$2,000 in 12 years...\$4,000 in 24...\$8,000 in 36...etc (The Rule of 72)

Why all this talk about \$1,000?

- Every \$1,000 that comes into your business **counts**
-whether it come in at \$100 at a time, \$10 dollars at a time, or \$1 at a time...it adds up
- Tracking the money, big and small, is critical for making good business decisions

Lets look at some examples of reports you can use if you provide the needed information...

- 
- [Vegetable Farm Balance Sheet](#)
 - [Vegetable Farm Balance Sheet with detail](#)



On to Farm Records

- Why keep them?
- What about your current records?
- What does a good set of records consist of?
- What are some “rules” for keeping records?

If you do not owe anyone money, you are taking on the all the risk in your business...

What habits have you developed to manage that risk?

- Do you make sure all income is noted before any is taken out for personal or business use?
- Do you track expenses so you know that any changes you make have been beneficial?
- Do you plan for next year based on what you recorded from this year?
- Will you produce crops next year based on the amount you marketed this year?
- Have you recorded production expenses for each crop or animal, or income from each crop or animal?
- What procedure (habit) do you use to determine how much net income you had this year?

If you do not owe anyone money, you are taking on the all the risk in your business...

What habits have you developed to manage that risk?

- Is all income noted before any is taken out and do you track expenses so you know your changes have been beneficial?
- Do you plan for next year based on production from this year and plant based on the amount you marketed this year?
- Have you recorded production expenses for each crop or animal, or income from each crop or animal?
- What procedure (habit) do you use to determine how much net income you had this year?



Basic reasons to keep records...

1. Determine the level of farm earnings.
2. To determine an accurate net worth and observe financial progress.
3. To determine the weaknesses and strengths of the total farm business.
4. To determine which crops and animals are the most profitable.
5. To evaluate personal spending.
6. Furnish information for income tax purposes.



Basic reasons to keep records...

7. To supply data for cash flow and future long term planning
8. An organized record for insurance documentation.
9. To preserve information, a historical record, about the business for further reference.
10. To help with Government Program applications
11. To aid in obtaining credit and determining loan repayment ability.
12. A tool for decision making and developing risk management strategies.



How are your farm records kept now?

▶ Receipts and Invoices

- ▶ Checking account with little review until tax time...
- ▶ Shoe box/bathroom vanity drawer
- ▶ Photo system
- ▶ Manual record book entry
- ▶ Computerized accounting system (i.e. Excel, Quicken, QuickBooks, FarmWorks, PcMars)

▶ Records of each type of crop or animal

- ▶ Collected?
- ▶ Analyzed?

▶ Inventories

- ▶ Do you track them?

How are your farm records kept now?

- ▶ Whatever your record system is.....
 - ▶ What do your current farm records consist of?? What do you want them to be?? How do you get there?
 - ▶ What do you want to get out of your records really?? Who are you doing this for??
 - ▶ Who does the actual data entry?? Who should be doing the data entry??

NOTE: Time spent in the office managing finances may well be the most profitable time you have.

Lets look at some examples of reports you can use if you provide the needed information...

- 
- Sample income and expense record

Bruce's Rules for keeping records...

- ▶ Make a schedule, and stick with it.
- ▶ The person with the intimate knowledge of the operation should be actively engaged in entering the data.
- ▶ Buy a box of file folders and use them. Get organized. January Income, February Income; January Expenses, February Expenses....farm and personal
- ▶ Reconcile bank statements. All of them.
- ▶ Don't be afraid to say this isn't working, and try something else. Get help.

So...Where do I start?

- Select the best record keeping system for you
- Work with your advisor/professional to set up your accounts in that system
- Identify where you are at the beginning of each year...do an annual balance sheet

In Conclusion...

Please answer the two questions below using the chat box...

- What change are you going to make because of this presentation?
- What question do you have that was not answered today?

Thank you for participating today

