

# Tools to Evaluate Your Farm Financial Situation

Kevin L. Herbel  
Executive Director  
Kansas Farm Management Association

Robin Reid  
Extension Ag. Economist  
K-State Department of Ag. Economics

Duane Hund  
Director  
Kansas Farm Analyst Program

LaVell Winsor, David Kehler, Tressie Mitzner  
Fred Armstrong, Farm Analysts  
Kansas Farm Analyst Program



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## Tools to Evaluate Your Farm Financial Situation

To meet your goals and objectives for the future  
You must...

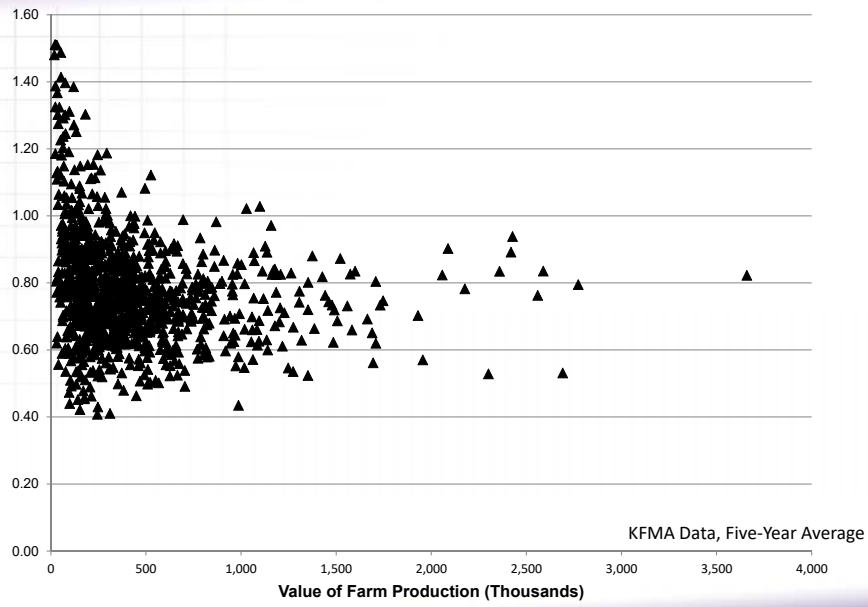
**KNOW YOUR NUMBERS** *and*  
**USE YOUR NUMBERS**

Keeping good records and using those records in  
decision making is important for the sustainability  
and productivity of the farm and family



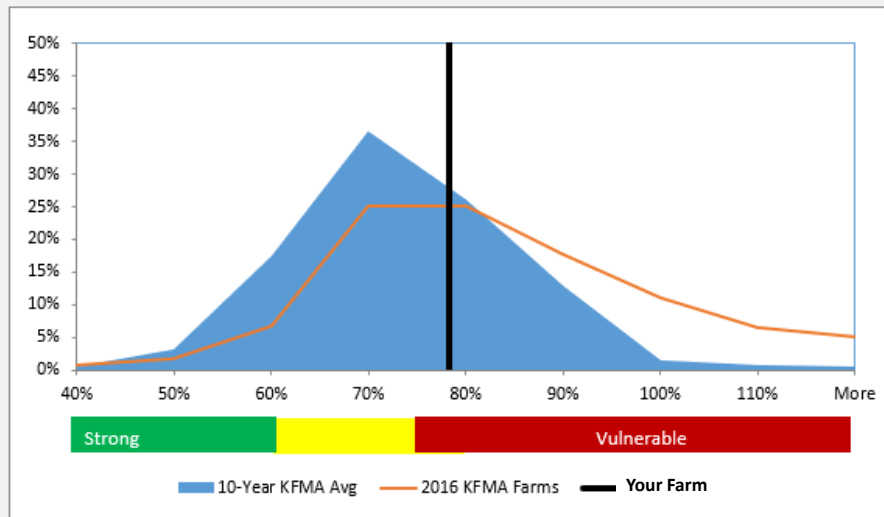
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### Total Expense Ratio

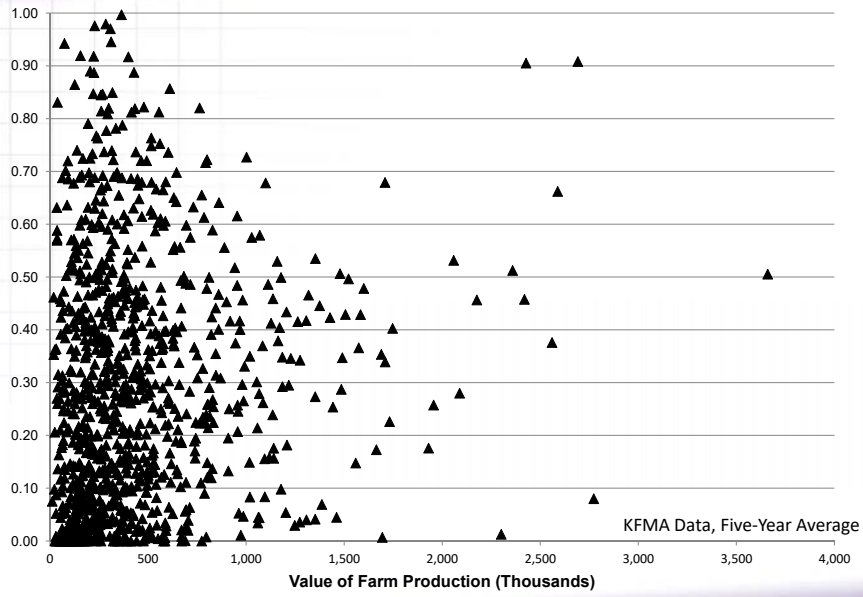


### Operating Expense Ratio

	2016	10-Year
40%	0.7%	0.6%
50%	1.6%	3.1%
60%	6.8%	17.5%
70%	25.2%	36.7%
80%	25.2%	26.2%
90%	17.6%	12.9%
100%	11.1%	1.6%
110%	6.6%	0.8%
More	5.2%	0.6%
Count	425	641
Average	0.78	0.68

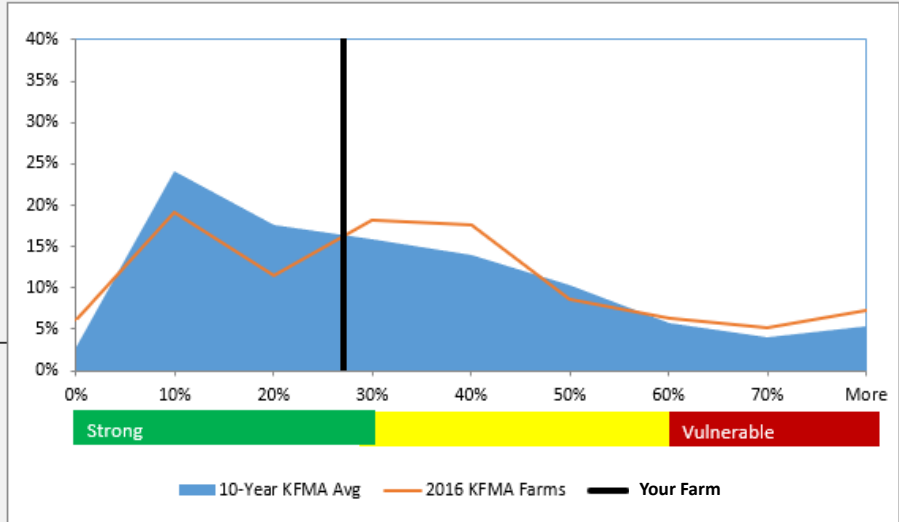


### Debt to Asset Ratio



### Debt to Asset Ratio

	2016	10-Year
0%	6.1%	2.8%
10%	19.1%	24.0%
20%	11.5%	17.6%
30%	18.1%	15.9%
40%	17.6%	14.0%
50%	8.7%	10.3%
60%	6.4%	5.8%
70%	5.2%	4.1%
More	7.3%	5.5%
Count	425	641
Average	0.27	0.24



*“Do the difficult but important things now.....  
You can procrastinate later!”* Unknown

*“Time is what we want most, but what we  
use worst.”* William Penn

## Record keeping is the first step to good management

- Know where you're at – financial picture
- Track progress – evaluate performance
- Compare with benchmarks and others
- Identify strengths and weaknesses
- Plan for the future

## How should I use my records?

- Balance Sheet
  - ✓ Financial Position at a point in time
  - ✓ Change in Net Worth
- Income Statement
  - ✓ Accrual Accounting gives more accurate picture
- Statement of Cash Flows (actual & projected)
  - ✓ Source and uses of funds
  - ✓ Amount and timing
- Comparative Analysis
- Trend Analysis

## How should I use my records?

Measures of:

- Solvency - Debt/Asset Ratio
  - ✓ How strong/weak is my financial position?
  - ✓ Long-run ability to meet obligations
- Liquidity – Current Ratio, Working Capital
  - ✓ Short-run ability to meet obligations
- Profitability
  - ✓ Does it make money? (Rate of Return)
- Efficiency
  - Time/Money used effectively? Am I competitive?

# What is important?

- Proper debt structure
- Maintain sufficient working capital
- Know and control costs (enterprise budgeting)
- Manage cash flow effectively
- Seek to know and understand the resources you have and properly assess those you “need”

# Balance Sheet-Liquidity

<b>Current Assets</b>			Value	<b>Current Liabilities</b>			Balance
Cash and checking			-7,225	Accrued interest			29,723
Prepaid exp. & suppl. (Schd B)			162,563	Payables & accr exp (Schd T)			20,000
Growing crops (Schd C)			161,557				
Accounts receivable (Schd D)			22,915				
Hedging accounts			36,250				
Other current assets			-				
Crops (Schd G)			Quantity	Value/Unit			
Grass Hay			30	65.00/ton	1,950		
Alfalfa Hay			725	101.72/ton	73,750		
Livestock held for sale					-		
<b>Total Current Assets</b>			<b>451,760</b>	<b>Total Current Liabilities</b>			<b>708,394</b>

Current Ratio = Current Assets/Current Liabilities= **.64**

Working Capital = Current Assets-Current Liabilities= **-256,634**

<b>Intermediate Assets</b>			<b>Intermediate Liabilities (Schd V)</b>					
		Market Value	Loan	Int Rate	Principal Balance	P & I Due	Principal Due	Intermed Balance
Breeding livestock		-	Centr-Machinery	3.50	427,461	127,334	107,185	320,276
Machinery and equipment		1,315,750						
Titled vehicles		-						
Other intermediate assets		-						
<b>Total Intermediate Assets</b>		<b>1,315,750</b>	<b>Total Intermediate Liabilities</b>					<b>320,276</b>

<b>Long Term Assets</b>			<b>Long Term Liabilities (Schd W)</b>					
	Acres	Market Value	Loan	Int Rate	Principal Balance	P & I Due	Principal Due	Lg Term Balance
Land (Schd M)			Centr-Farm Loan	4.75	287,430	27,217	12,903	274,527
South Farm	157	345,400	FSA-Hay Shed	3.125	14,301	7,488	7,020	7,281
Central Home	157	392,500						
Central Home Improved	157	471,000						
Bldgs & improve. (Schd N)		110,500						
Other long term (Schd O)		24,344						
<b>Total Long Term Assets</b>		<b>1,343,744</b>	<b>Total Long Term Liabilities</b>					<b>281,808</b>

## Balance Sheet-Solvency

Total Farm Assets	\$3,111,254	Total Farm Liabilities	\$1,310,478
<b>Net Worth = \$1,800,776</b>			

Debt/Asset Ratio = **.42**  
**42% of your assets are owned by creditors!**

## Enterprise Budgeting

	Corn	Soybeans
Yield	120 bushels	40 bushels
Price	\$3.50	\$9.00
Income	\$420	\$320
Fertilizer	\$45	\$18
Herbicides	\$70	\$55
Seed	\$65	\$50
Crop Insurance	\$20	\$15
Machinery	\$100	\$75
Additional Labor	\$15	\$15
Interest	\$10	\$7
Cash Rent	\$60	\$60
Expenses	\$385	\$295
<b>RETURN</b>	<b>\$35/ACRE</b>	<b>\$25/ACRE</b>

## Enterprise Budgeting

- Comparing between enterprises- What is most profitable use of your resources?
- Controlling costs – *Low Cost* may  $\neq$  *Most efficient*
- Production is important, but highest production may not be most profitable

*Do you know your cost of production?*



## Managing Cash Flow

- Proper debt structure is important
- Maintain sufficient working capital
- Know and Control costs (enterprise budgeting)

Also,

- Personal Living
- Covering Debt payments
- Capital for reinvestment- upgrading machinery/equipment, land purchase

## Resources-what you have/need

- Selling excess assets?
- Do you really need that \$300,000 tractor?
- Do you have the human resources to do the job?

## What is important?

- Proper debt structure is important
- Maintain sufficient working capital
- Know and Control costs (enterprise budgeting)
- Manage cash flow effectively
- Seek to know and understand the resources you have and properly assess those you “need”

Sometimes we end up where we didn't intend



# Strategic Planning

*Do you know where you intend to end up?*

*Do you know how you can get there?*

## Components of Strategic Planning

- Determine mission and goals
- Evaluate the external opportunities and threats to the business
- Internally analyze farm's strengths and weaknesses
- Evaluate potential strategies for the farm business
- Develop an implementation plan for selected strategies

## Why invest Time and Effort for Strategic Planning?

- Agriculture is changing, how will you adapt?
- Need a plan to get where you want to go
- To determine your position in the industry

## Takes Time, but Successful Producers Make Time to Think

- Creatively
- Honestly
- Strategically



Oops...that may not have been round-up ready!

# *Do the Right Thing Versus Doing Things Right*

*Peter Drucker*



## Strategic planning for the future

- Compare alternative whole farm plans to the current farm operation for:
  - Profitability
  - Debt Repayment Ability
  - Net Worth Growth


## Strategic planning for the future

- Base plan – long range projection of current operation
  - Ability to evaluate alternatives compared to this Base Plan
- Evaluate potential strategies for the farm business
- Develop an implementation plan for selected strategies

K-State Research and Extension

# Farm Financial Workshops

An opportunity for an individual appointment with a K-State Farm Analyst to evaluate your farm's financial performance and to plan for the future



Jan. 11<sup>th</sup> & 12<sup>th</sup> – Salina, KS  
 Jan. 23<sup>rd</sup> & 24<sup>th</sup> – Kingman, KS  
 Feb. 7<sup>th</sup> – Colby, KS  
 Feb. 8<sup>th</sup> – Dodge City, KS  
 Feb. 12<sup>th</sup> & 13<sup>th</sup> – Emporia, KS



## Farm Financial Workshop Information:

A Farm Analyst will work directly with your family using FINPACK software to assess your current financial position and possible changes your farm could make to increase farm profitability and cash flow. Your family will come away with a balance sheet, enterprise budgets, base business plan, and alternative business plan scenarios.

- Appointment times are **4 hours** long for one of the workshop days, with different starting times available
- Participation by all family members involved in the farm is highly encouraged
- \$150 fee due is at registration (eligible for \$100 off first-year membership to KFMA)
- Forms to collect farm financial information MUST be submitted to the listed contact by the deadline for that location so Farm Analysts have adequate time to prepare the analysis before the appointment
- Limited appointments are available at each location and will be filled on a first come, first serve basis

To register for a workshop appointment contact:

**Robin Reid**  
**K-State Ag. Economics**  
**785-532-0964**  
**robinreid@ksu.edu**

*All information provided by participants is strictly confidential. An envelope will be provided for sealed records to be turned in that will only be viewed by Farm Analysts assigned to your family.*

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## Questions or More Information

Extension Agricultural Economics

✓ [www.AgManager.info](http://www.AgManager.info)

Kansas Farm Management Association (KFMA)

✓ [www.AgManager.info/KFMA](http://www.AgManager.info/KFMA)

Kansas Agricultural Mediation Services (KAMS)

✓ [www.k-state.edu/KAMS](http://www.k-state.edu/KAMS)



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# FINLRB Income Statement

## PROFITABILITY

### INCOME STATEMENT

			Base Pla
Wheat, Winter	\$	4.00/bu.	138,14
Soybeans	\$	8.50/bu.	268,87
Corn	\$	3.50/bu.	324,81
Hay, Alfalfa	\$	110/ton	77,66
Hay, Brome Grass	\$	65.00/ton	11,70
Custom work income			53,00
Other farm income			40,30
(A) <b>Gross farm income</b>			<b>914,49</b>

## Expenses

Seed	149,627
Fertilizer	131,726
Crop chemicals	59,527
Crop insurance	22,840
Interest	46,532
Storage	2,555
Fuel & oil	26,240
Repairs	68,500
Custom hire	3,500
Hired labor	48,569
Land rent	110,860
Machinery leases	17,656
Building leases	3,000
Grazing fees	8,175
Real estate taxes	17,450
Personal property taxes	2,000
Farm insurance	22,400
Utilities	6,077
Consultants	5,350
Marketing	8,156
Miscellaneous	750
(B) <b>Total cash farm expense</b>	<b>761,489</b>
(C) <b>Net cash farm income</b>	(A-B) 153,010
(D) <b>Depreciation</b>	137,100
(E) <b>Net farm income</b>	(C-D) <b>15,910</b>



# FINLRB Cash Flow

## CASH FLOW

Net cash farm income	(C)	153,010
Nonfarm income	(+)	-
Family living	(-)	54,000
Income taxes	(-)	2,280
Cash available for principal payments	(=)	96,730
Farm interest paid	(+)	46,532
Cash avail. for principal and interest	(=)	143,261
John Deere Credit-Combine		25,810
John Deere Credit-1890 Drill		13,250
John Deere Credit-7930 Tractor		19,170
John Deere Credit-Grain Cart		5,140
John Deere Credit-JD 4850		5,918
John Deere Credit-Z925A Mower		3,143
AgCo Finance-Swather		8,438
John Deere Credit-4830 Sprayer		25,000
1st National Bank-JD Payloader		21,465
1st National Bank-Farm Loan		27,217
Farm Service Agency-Hay Shed		7,488
Operating interest		18,768
Total scheduled principal and interest	(-)	180,807
Cash available after loan payments	(=)	-37,545
Annual capital replacement		1
Principal paid on intermediate debt		112,351
Cash required for replacement	(-)	-
<b>Cash surplus or deficit</b>	(=)	<b>-37,545</b>

