

ECONOMICS

Exploiting the Financial Fruits of Farm and Ranch Records

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The beginning of a new year is the perfect time to analyze your agricultural operation's economic performance. As we close the book on the past year, commodity and input markets were highly volatile in 2011 and likely created some uncertainty about the actual profitability of your entire farm enterprise. For those who maintained accurate operational production and financial records, the good news is that a great deal of valuable information can be gleaned from them. Below are three areas where the fruits of good recordkeeping efforts can be harvested.

Generating an Income Statement

Reports generated from accounting software such as Quicken® or QuickBooks® show the return to each enterprise and the overall operation. The ability to generate an income statement and other reports is the fruit of your accounting labor. With inventories of grain and cattle sold in different years than when they were produced, it is important to create an accrual adjusted income statement. This is the merging of the net worth and income statements to show the true picture of your operation's financial success



for the past year. The year over year change in inventories, accounts payable and accounts receivable is added to the income statement.

Management decisions can be made from these reports to improve the operation in the coming year. It is important to analyze each expense category to make sure the figures make sense and see if there are areas that can be improved. After analyzing your accounting records, it is important to establish a budget covering each enterprise for the new year. Not only is it important to use personal

records in establishing a budget, it is also helpful to examine industry averages. Industry averages allow producers to understand where expense categories may be out of line compared to similar operations. Averages for different types of enterprises can be found at: agrisk.tamu.edu/agrisk/beef_cow_calf/information; and www.agmanager.info/kfma.

Understanding Production Levels

It is also important to understand how the production levels of your ▶

operation fared in the previous year. Comparing figures to previous years within an operation can help to determine progress. Once again, it is important to know how your operation falls in line with industry averages. The websites mentioned above have actual data from other operations that you can compare to your production data. Knowing where your operation can improve is the first step to greater success.

Using a Net Worth Statement

Jan. 1 is a great time to develop a snapshot of your assets and liabilities by creating a net worth statement. It is important to know how your net worth changed from the previous year. Year over year changes in the net worth statement reflect the amount of net farm income that was invested back into the operation after meeting family living expenses.

Using the information collected

from these three exercises will give you a better understanding of your operation's production performance and subsequent financial success for the previous calendar year. In addition, this knowledge will be useful to identify areas of strengths and weaknesses within your operation and for making production and management decisions for the coming year. Good luck and may the new year be prosperous for you, your family and your operation. ■