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Getting your financial records in working order for 2014

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Can your farm's finances weather a storm? continued from page 1

Spend a day playing the game of farm finances. Win prizes and gain greater knowledge of farm finances! Practice simulations to build a financial picture from a case study. The day will allow you to learn with other participants from team leaders on the basics of having a solid financial foundation.

Moving beyond the basics

This program takes learning to a deeper level with a multi-session program for women focusing on financial literacy. This program is modeled after the nationwide Annie's Project for Farm and Ranch Women. According to Schulte, "This program will allow women the opportunity to evaluate record keeping systems and test-drive accounting software in a classroom setting."

Knowing the resources available for analyzing your financial position will make you better able to ride

periods of low prices and farm income. Programs will be offered at various locations in Ohio and Iowa. These programs have been developed through a grant from the North Central Risk Management Education Center and USDA National Institute of Food and Agriculture.

More Information

For more information, watch the Ag Decision Maker website for further details, www.extension.iastate.edu/agdm/. Or contact one of the ISU Extension specialists listed below.

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Getting your financial records in working order for 2014

By Kristen Schulte, farm management specialist, Iowa State University Extension and Outreach, 563-547-3001, kschulte@iastate.edu

Is your operation prepared for tighter margins ahead? You likely complete annual maintenance on your equipment or routine vet checks for your livestock; do you complete a financial check-up for your operation? With changing prices and margins from year-to-year, a closer look at your financial position may be important for long-term financial stability.

Prepare financial documents

Financial documents are often completed at year end for accounting, lending or tax purposes. An operation should complete a balance sheet, income statement and cash flow to determine its financial position. A balance sheet is typically completed for lending requirements at year-end, but a completed income statement and cash flow may or may not be completed for the operation.

Although a Schedule F may be completed for tax returns, additional steps need to be taken to complete an income statement. Most farms only complete financial statements on a cash basis; to get an accurate picture of the operation's financial success in the current year, an accrual adjusted income statement should be completed. Research has shown that accrual basis statements can reveal an operation under financial stress sooner than when using cash basis statements.

A cash flow statement is a budget or estimate of all cash receipts or expenditures that are expected to occur during a specified time period. This statement can be done on a monthly, bi-monthly, or quarterly basis. A completed cash flow will give an operator insight into if the operation can meet all cash needs or when the operation will need operating funds due to cash deficits. In the coming year

Getting your financial records in working order for 2014, continued from page 2

with the forecast of tighter margins, a cash flow statement will become more important to determine the financial strength of an operation and its ability to meet financial obligations.

In addition to a complete set of financial statements, additional analysis should be completed to determine the financial health of an operation. The Farm Financial Standards Council (www.ffsc.org) identified 21 ratios that adequately measure the financial position and performance of an operation. Financial ratios are broken down into five categories: liquidity, solvency, profitability, financial efficiency and repayment capacity. Lenders often identify a few ratios they focus on to measure the financial position of an operation. Additionally, each operation should identify ratios that help to manage its financial stability from year to year.

Analyze key data

When key ratios for an operation are selected, it is then important to identify the corresponding benchmark measures based on demographic location, operation type or size. Financial ratio information and benchmark measures for Iowa farms can be taken from *AgDM Information File C3-55*,

Financial Performance Measures for Iowa Farms. The publication reports farm financial measures for all farms by operation type and profit level; data is gathered from the Iowa Farm Business Association.

Production agriculture today is extremely volatile; sensitivity analysis should also be completed to evaluate the financial stability of the operation. Examples of changes to measure sensitivity are an increase in expenses, decrease in revenue or increase in interest rates. To measure sensitivity, one should shock revenue or expenses by 5 or 10 percent and interest by 3 or 6 percent. Net farm income is then evaluated to see where the farm's profit level is after each change. More detailed analysis can include specifically shocking or changing commodity prices or input prices to evaluate the impact of specific factors. Can your operation sustain a decrease in revenue due to changes in prices or yields and to what degree?

With proper financial analysis and planning, one can prepare an operation to be financially stable and successful for years to come. Additional information on financial statements and analysis is located on the Ag Decision Maker website.



Using a basis contract to market corn

by *Steven D. Johnson, farm and ag business management specialist, Iowa State University Extension and Outreach, 515-957-5790, sdjohns@iastate.edu*

Despite a late start, the 2013 harvest progressed rapidly and yield prospects increased across most of the Corn Belt. The U.S. corn yield average rose by 5.1 bushels per acre from September to November, according to USDA's latest estimate. Farmers are expected to harvest a record 13.989 billion bushels in 2013. Final USDA estimates will be released on January 10.

From mid-June to mid-November, the December 2013 corn futures contract declined by more than \$1.50 per bushel. The nearby futures market finally found support around \$4.15 per bushel. A large movement upward in price isn't likely anytime soon without a global change to supply and demand fundamentals.

Farmers are holding a lot of unpriced grain. Iowa State University Extension farm management specialist Steve Johnson encourages farmers who have unpriced corn to consider using a basis contract to market at least a portion of those bushels, especially if these are stored commercially.

An attractive basis and need for cash will be the main drivers for farmers to move stored bushels. With high 2013 farm income levels, farmers may wait to sell bushels until after the first of the year or defer additional income. Johnson expects corn basis to remain attractive through year-end. Basis contracts encourage farmer movement of cash corn and should be considered. Commercially stored bushels will likely have higher fixed costs than on-