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Can your farm’s finances weather a storm?

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Can your farm’s finances weather a storm?

by Ann Johanns, extension program specialist, Iowa State University Extension and Outreach, aholste@iastate.edu, 641-732-5574

After several years of financial gains in agriculture, we face an uncertain future. Does your farm operation sit on a solid base, prepared to weather a storm? Or are you floating along, unaware you are in a position of high tide?

The three programs described in this article have been created to address agricultural finances in today’s changing world, starting with awareness in a short seminar and moving toward a multi-session program that covers a multitude of information in an interactive setting. Program developers and presenters for the programs include Kelvin Leibold, Tim Eggers, Kristen Schulte and Ann Johanns, ISU Extension farm management specialists.

“The USDA marketing year average for corn in 2012 was $6.89; predictions going forward are showing a price closer to $4.50,” says Leibold. “Soybeans show a similar story, going from $14.40 in 2012 to $12.15.” When high prices leave, will your boat be left stranded on the shore?

Eggers states, “Participants should plan to attend one or all, or send your clientele to raise their awareness of financial analysis as it applies to their farm operation.”

Your key ratio
This 45-minute program will share resources available for analyzing your financial position. Attend to increase your awareness of financial risks and identify ways to manage those risks.

Deep water or high tide?
Learn how changes to interest rates and other input costs can affect your net farm income. How can you manage these changes to balance lower prices and rising costs in the future?

Handbook updates
For those of you subscribing to the handbook, the following new updates are included.

Crop Planning Prices – A1-10 (1 page)
Table of Contents - Crops - Markets – A2-00 (1 page)
Table of Contents - Crops - Machinery – A3-00 (1 page)
Table of Contents - Livestock - Cost & Returns – B1-00 (1 page)
Suggested Closing Inventory Prices – C1-40 (2 pages)
Table of Contents - Whole Farm - Legal – C4-00 (1 page)

Please add these files to your handbook and remove the out-of-date material. continued on page 6

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Ag Decision Maker is compiled by extension ag economists
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extension program specialist
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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**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...