

RIGHTRISK™

RIGHTRISK NEWS

DATES TO REMEMBER

NAP Coverage
(Spring-planted crops)
- county specific deadlines

Spring crop acreage
reporting deadline
- July 15

Margin Protection
Program Dairy (MPP-D)
- 2019 crop year
July 1 - Sept. 30th, 2018

For more information see:
<http://www.rma.usda.gov>
<http://www.fsa.usda.gov>

Getting on Track - Better Management Through: Basic Ag Records, Basic Financial Statements, and Understanding Financial Performance

Today's rural families operate in a time of increasing financial uncertainty. Current financial conditions are unlike any previously experienced. Keeping accurate, up-to-date financial statements, production records, and knowing the overall financial health of the business has never been more important. Accurate and current financial and production records are an essential part of any successful rural enterprise. They allow more careful planning for uncertainty, new opportunities, and allow for better daily and strategic operating decisions.



The Hoffstedtlers, Harlan, Lena and their three children, live on a small farm. Lena cares for a small sheep flock and a five-acre garden. The Hoffstedtler's have always operated the farm out of their family budget. They do not report their farm income expenses separate from their home income and expenses. Is this really best for their family and farm?

Case Example from *Getting on Track: Better Management Through Basic Ag Records*

Managers who know their financial situation can more quickly evaluate and adapt to changing market and financial conditions. This can mean being better suited to recognizing and dealing with financial problems when they arise. Managers who keep good records and statements can also work more effectively with lenders and creditors because they are prepared to do so. In the current environment, this might mean the difference between being able to adjust finances to changing economic conditions or being left to accept whatever restrictions current creditors demand.

How Much Risk is Right for You?

Getting on Track: Basic Ag Records

Getting on Track: Better Management Through Basic Ag Records is intended to help new and smaller ag enterprise managers improve their recordkeeping abilities. The course is divided into several sections dealing with various topics on production and financial recordkeeping. The first section addresses using recordkeeping within the family and business decision-making process. Four different family business situations are presented in separate modules to illustrate the importance of recordkeeping.

Another section is organized into short modules presenting: 1) why keep records, 2) five easy steps for basic records, 3) keeping production records, 4) keeping financial records, and 5) records needed for filing Internal Revenue Service form Schedule F for tax purposes. The course also includes example recordkeeping forms for crop operations, livestock records, the complete "Agee Record System," with links to other helpful courses for further study.

Getting on Track: Basic Financial Statements

Current and accurate financial statements are the culmination of a solid system of record keeping. They are essential to managing any successful enterprise. They allow more careful planning for uncertainty, new opportunities, and for better daily and strategic operating decisions. Managers fully-aware of their financial situation can more quickly evaluate and adapt to changing market and financial conditions. This can mean being in a better position for recognizing and dealing with financial problems as they arise.

Getting on Track: Better Management Through Basic Financial Statements is designed to help new and smaller rural enterprise managers improve their abilities to develop complete financial statements. The first section provides an introduction to Jack and Joanie, a young couple who's situation is used to demonstrate the value of financial statements throughout the course. Currently, Jack and Joanie have a small farm with three ewes and a large flower garden. They are expecting their second child and Joanie would like to quit her job to be a stay-at-home mom. The course follows Jack and Joanie as they learn to use financial statements and the information they provide.

Subsequent sections of the course cover each financial statement. Cash flow statements provide information about the business's ability to generate enough cash to meet financial



obligations, identify the sources and uses of cash in the business, but do not provide an estimate of business profitability. The balance sheet is usually required by lenders to determine credit worthiness. The accrual income statement is the only accurate method for evaluating business profitability. A seven-step process is presented for creating an income statement and properly estimating net income. This process includes all cash transactions, as well as all non-cash transactions.

The last financial statement is the statement of owner equity. This statement helps business owners better understand changes in their business net worth due to monies earned, expenses incurred, taxes paid, inheriting or receiving gifts, giving gifts, debts forgiven, and possible changes in asset values. The final section of the course outlines other types of analysis a rural business owner may be interested to use to learn even more about their business. Additional topics covered include: whole farm analysis, enterprise analysis, investment analysis, and marketing analysis. Financial ratios and indices that form the basis of in-depth financial analysis are also briefly presented as part of this section.

Getting on Track: Financial Performance

Financial statements are helpful summaries of business financial standing. However, the statements also contain a substantial number of details. The details can make the financial position of the rural business unclear, especially for managers with little experience in interpreting their meaning. To provide a clearer picture of the financial standing of a business or a businesses' financial health, managers can calculate financial ratios or indices.

Getting on Track: Understanding Financial Performance is designed to help enterprise managers improve and build upon their abilities to properly evaluate business financial health. The course is divided into several sections covering topics on all five aspects of financial performance. The course continues the Jack and Joanie story from the Financial Statements course to help students better understand the practical aspects of calculating and interpreting measures of financial performance.

The course introduces the basic concepts of financial analysis and the five key areas of financial health. Physical indicators of health are used to assess an individual's state of well-being. Financial indicators are used to evaluate the well-being of a business. These measures include: liquidity, profitability, solvency, financial efficiency, and repayment capacity. It is important to evaluate each area of performance to get an accurate understanding of the overall health of the enterprise.

Following sections cover each of the five key areas of financial performance in detail. Specific information is presented on how each measure of financial performance is calculated, where the

particular numbers for calculation may be found, and how to interpret the resulting values. Financial ratios are most valuable when compared to a figure calculated for a previous year or an industry benchmark. Such benchmarks provide guidelines or general rules of thumb related to a specific industry. The final section of the course discusses trend analysis and interpreting measures of financial performance collected over several years. Opportunities to demonstrate an understanding of this type of analysis is offered with appropriate feedback in the course. How this type of information can act as an early warning system to alert managers to areas of increasing risk is also covered.

For more information or to access the online course materials, visit the RightRisk web site at RightRisk.org. Click on Courses and select *Getting on Track: Better Management Through Basic Ag Records*, *Getting on Track: Better Management Through Basic Financial Statements*, or *Getting on Track: Understanding Financial Performance* from the many courses available.

Measures of Profitability

Profitability Ratio Benchmarks

Profitability Benchmarks	Low	Moderate	High
Rate of Return on Assets	> 0.05	0.01 - 0.05	< 0.01
Rate of Return on Equity	> 0.1	0.05 - 0.1	< 0.05

Possible Actions for Improvement: Increase the value of production, reduce production costs where prudent, control or reduce family living withdrawals, improve marketing practices, properly structure debt for revenue generation.

RightRisk helps decision-makers discover innovative and effective risk management solutions.

- Education
- Coaching
- Research

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How much risk is right for you and your operation?

