

Getting on Track: Better management through basic financial statements

Constructing accurate financial statements for your farm/ranch/agribusiness is one of the basics for management success.

These statements are often the key to identifying problems and risks before they become severe as well as helping recognize opportunities as they arise. The Basic Financial Statements course highlights several examples, showing how to assemble and understand financial statements. The course is divided into segments highlighting each statement and what information required.

CASH FLOW STATEMENT

The cash flow statement shows farm business sources and uses of cash, both total income and expenses, and monthly inflows and outflows.

The course outlines two types of cash statements: historical—actual data from past periods, and projected—constructed from predictions of inflows and outflows. Generating a projected cash flow statement is important to understand when cash shortfalls might occur and how they might be addressed, making it an important tool for borrowers and lenders. The course includes a downloadable template and instructions for building your own cash flow statement.

How to create a cash flow statement

Record cash inflows like the

- Deposits in a check book
- Deposits on a bank statement
- Payments on a credit card statement

Record cash outflows like the

- Record of checks in a check book
- Withdrawals on a bank statement
- Charges on a credit card statement

BALANCE SHEET

The balance sheet lists all assets and liabilities and subsequent net worth (asset values minus liabilities) of the owner. The balance sheet is important to lenders where it provides estimated values at a point in time and can supply a measure of business performance over time. The course discusses how to classify assets and liabilities (current, long-term, or other), and how to value them.

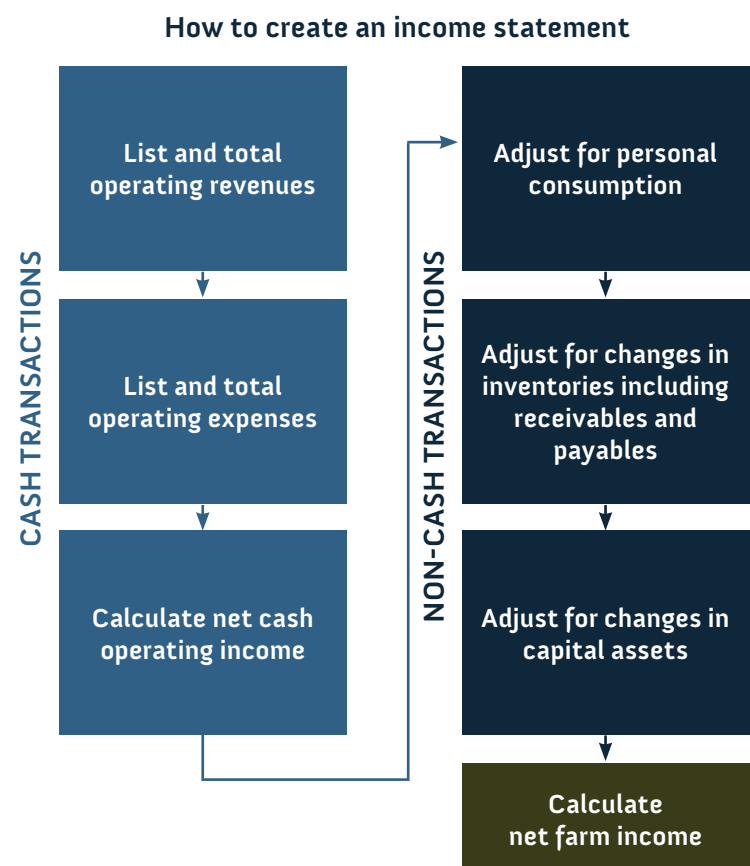


FOR MORE INFORMATION

The *Getting on Track* series was developed with beginning producers in mind and emphasizes the importance of keeping basic records, assembling financial statements, and learning to evaluate those statements through analysis. The three-part, self-paced Statements course includes numerous resources and examples for a family business setting. Point your browser to RightRisk.org and select any of the three *Getting on Track* courses from the Courses tab to access. Due to the loss of Flash Player support, course audio is not currently available but all accompanying resources remain accessible.

INCOME STATEMENT

The accrual income statement provides an accurate measure of profitability for any business. The course lays out a seven-step process for building an income statement and properly estimating net income. The flow chart shows the process, starting with estimating net cash income from operating expenses and revenue. Accounting for non-cash transactions, such as changes in asset values and inventory variations, is the next step in the process. Net farm income can then be estimated after adjusting for personal consumption.



STATEMENT OF OWNER EQUITY

The Statement of Owner Equity is the last financial statement discussed in the course. The statement reveals how equity or net worth changes between two balance sheets. This information is helpful to understand what financial events caused net worth to change over time. The course outlines a six-step process to complete a statement of owner equity

How to create a Statement of Owner Equity

- Step 1:
Record the beginning net worth.
- Step 2:
Add Net Farm Income (or subtract net losses).
- Step 3:
Add any contributions to the business.
- Step 4:
Subtract any distributions of owner equity from the business.
- Step 5:
Add or subtract asset valuation changes.
- Step 6:
Calculate ending net worth.

NEXT STEP TO BETTER MANAGEMENT

With completed financial statements in hand, you are ready to move on to more in-depth analysis of your farm or ranch business, including enterprise and whole farm analysis. These approaches allow you to better analyze and evaluate your use of resources and address problems that may arise as you move forward. In the next installment we will review the third *Getting on Track* course that focuses on explaining financial performance.

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