

## Two Hands on the Wheel!



Basics of Balance Sheet,  
Cash Flow & Income Statements  
For Low Revenue Times

Women in Ag Conference  
February 22, 2018  
Kearney, NE

*Photo by Bethany Johnston*

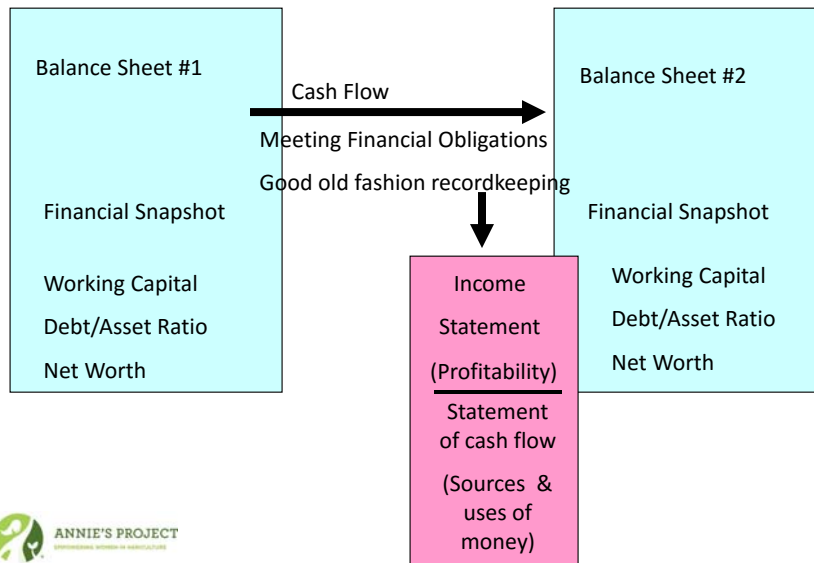


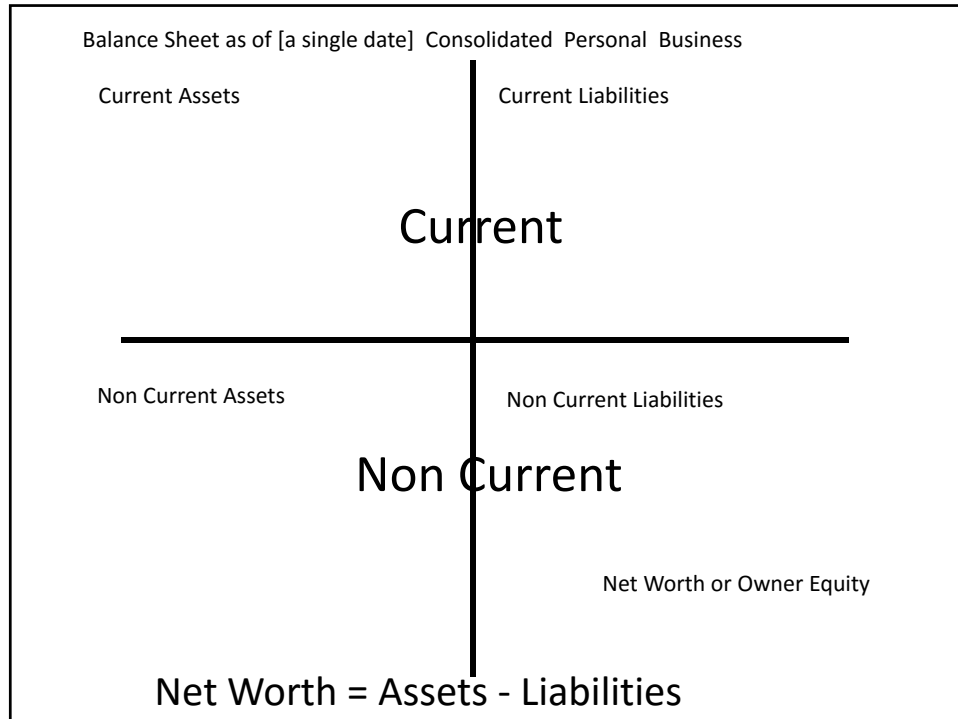
## Four Characteristics of Resilient Farmers

1. Own your assets
2. Cost containers
3. Right-sized/economy of size
4. Generate higher revenues



## Commit This Diagram to Memory





## Key Ratios From the Balance Sheet

- Working Capital
- Debt/Asset Ratio
- Net Worth

## Your Turn to Analyze a Balance Sheet

Examine the provided Balance Sheet for the following items:

- Working Capital
- Debt to Asset Ratio
- Net Worth

Green Paper—Balance Sheet Exercise

Benchmark Ratios



## Income Statement Structure

### Revenues

Gross Revenues (example: \$500,000)

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Operating Expenses (example: \$250,000)

Depreciation Expenses (example: \$ 50,000)

Total Operating Expenses (example: \$300,000)

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Diff. between revenue & Expenses is

Operating Margin (\$200,000)

### Financing Expenses

Total Financing Expenses (example: \$25,000)

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**Net Farm Income from Operations \$175,000**

## Key Ratios From the Income Statement

Financial efficiency ratios come from the income statement. The following four categories are looked at as a percentage of gross revenues.

Operating expenses—50%

Depreciation expense—10%

Interest expense—5%

Net Farm Income—35%

## How the Pieces Fit Together

Introduction		Enter Data		Financial Statements		Ratios		Credit Scoring		Click for Menu Display Options	
<b>Balance Sheet</b>		<b>Assets</b>		<b>Liabilities</b>		<b>Income Statement - Accrual A/c</b>		<b>Income</b>			
	Beginning	Ending		Beginning	Ending						
Mon. on Hand	30,000	0	Accounts Payable (Exo)	0	0	Cash Income (Net of cull livstk sales)					\$83,023
Cross Held for Feed (Exo)	0	0	Accrued Interest (Exo)	17,551	12,024	Non-Cash Income Adjustments					0
Cross Held for Sale (Incl)	250,000	250,000	Current Principal	75,399	80,926	Non-Cash Income (Raised Brdo Livstk)					22,500
Market Livestock (Incl)	0	0	Other Current Liability (Exo)	10,000	10,000	Capital Gain/Loss on Breeding Livstk (Net)					(3,960)
Other Current Assets (Incl)	45,000	45,000	Short Term Notes (Exo)	0	0	<b>Gross Revenue</b>					\$101,563
Invest Growing Cross (Exo)	0	0	Def. Tax on Current Assets	0	0	Cash Expense (Excluding Interest)					68,113
Suoo & Prepaid Exp. (Exo)	20,000	20,000	Operating Loan Carryover	0	97,416	Non-Cash Feed Inventory Adjustment					0
<b>Total Current Assets</b>	<b>345,000</b>	<b>315,000</b>	<b>Total Current Liab.</b>	<b>102,951</b>	<b>190,366</b>	Other Non-Cash Non-Interest Expense					0
<b>Non-Current Assets</b>			<b>Non-Current Liabilities</b>			Depreciation (Land, Bldgs, Equip.)					68,000
Mach. & Equipment	550,000	505,000	Prin. on T.D. & C.L.	216,223	135,296	<b>Total Operating Expense</b>					136,113
Breeding Livestock	181,500	179,500	Def. Tax on Long Term Assets	0	0	Cash Int. Exp. - T.D. & C.L.					17,551
Real Estate-Land, Bldgs, Imp.	1,075,000	1,060,000	<b>Total Business Liab.</b>	<b>319,173</b>	<b>325,663</b>	Cash Int. Exp. - Operating					1,916
<b>Total Business Assets</b>	<b>2,151,500</b>	<b>2,059,500</b>	<b>Business Net Worth</b>	<b>1,832,327</b>	<b>1,733,837</b>	Non-Cash Interest Expense					(5,527)
			<b>Change in Equity From Beginning to End of Year (Retained Earnings)</b>			<b>Total Expense</b>					\$150,053
						Net Business Income From Operations					(48,490)
						Net Business Income					(48,490)
						Income+SS+Def. Tax-Cash & Non-Cash					0
						<b>Net Income</b>					<b>(48,490)</b>
											Accrual
<b>Cash Flow Statement</b>		<b>Inflows</b>		<b>Outflows</b>		<b>Statement of Owner Equity</b>					
						Beginning Net Worth (Cost/Mrkt)					1,832,327
Birth & Cull Livestock Sales		101,563	Cash Expenses	No Interest >	68,113	Net Income					(48,490)
Livstk Secondary Product Sales		0	Other Cash Business Outflows/Expense		0	Non-Business Cash Inflows					+
Government Payments		0	Cash Int. Exp. - T.D. & C.L.*		17,551	Owner Withdrawals (Cash)					-
Other Cash business Inflows/Income		0	Cash Int. Exp. - Operating	7.50%	1,916	Asset Valuation Change/Cont./Distrib.					+
Operating Loan Proceeds	75%	51,085	Loan Prin. Payments - T.D. & C.L.		75,399	Calculated Endino Net Worth					=
Loan Proceeds Capital Assets		0	Breeding Livestock Asset Purchases		6,000	Reported Endino Net Worth (Cost/Mrkt)					1,733,837
Non-Business Inflows/Revenue		0	Mach & Equip & Real Estate Purchase		0	Discrepancy					\$0
Other Nonfarm Inflows		0	Owner withdrawals		50,000						
Other Nonfarm Inflows		0	Cash Taxes Paid (Income & SS)		0						
<b>Total Cash Inflows</b>		<b>\$152,648</b>	Other Cash Outflows (Not Expenses)		0						
			Operating Loan Prin. Payments		\$0						
			<b>Total Cash Outflows</b>		<b>\$218,979</b>						
			<b>Annual Net Cash Flow (never &lt; zero)</b>		<b>(36,331)</b>						

[http://www.montana.edu/softwaredownloads/documents/software/RDFinancial MT RepresentativeFarmRanch-Oct-2011.swf](http://www.montana.edu/softwaredownloads/documents/software/RDFinancial_MT_RepresentativeFarmRanch-Oct-2011.swf)

Save, Load, Delete



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