

INTRODUCTION



- Importance of Records
- Outline of Modules
 - Enterprise Budgeting
 - Financial Statements
 - Financial and Economic Benchmarking
 - Partial Budgeting
 - Financial Component of Whole-Farm Business Plan

Module Name: Financial Analysis
Session Number: Session 1

Importance of Records



- Farm records needed:
 - Tax statements
 - Whole-farm records
 - Income statement
 - Balance sheet
 - Cash flow statement
 - Sources and uses of funds statement
 - Enterprise records
 - Field or pen records

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Importance of Records



- Cash vs. Accrual Accounting
 - Cash:
 - Items actively/constructively received during the year are included in gross income.
 - Expenses are deducted in the year they are paid.
 - Accrual:
 - Income is reported in the year in which it is earned.
 - Expenses are deducted when incurred.

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Importance of Records



- Accrual Net Farm Income
 - Includes inventory adjustments and provides a more accurate picture of the farm business.
 - Accrual Income Example:
 - To compute accrual beef income, we would subtract beef purchases and beginning inventory from beef sales and ending inventory.

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Importance of Records



- Accrual Income Example
 - Beef Cash Sales 90,000
 - Ending Inventory 85,000
 - Total #1 175,000

 - Beef Purchases 60,000
 - Beginning Inventory 70,000
 - Total #2 130,000

 - Beef Accrual Income (Total #1 – Total #2) = 45,000

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Enterprise Budgeting



- Detailed Cost Analysis
- Crop Enterprises
- Livestock Enterprises
- Long-Run Enterprise Benchmarks

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Financial Statements



- Balance Sheet
- Income Statement
- Cash Flow Statement
- Sources and Uses of Funds Statement
- Tax Statements

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Financial and Economic Benchmarking



- Competitive Positioning
- Benchmarking
- Financial Analysis Spreadsheet
- Economic and Financial Measures
 - Liquidity
 - Solvency
 - Profitability
 - Financial Efficiency
 - Repayment Capacity
 - Financial Stress
 - Profit Persistence

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Partial Budgeting



- Uses of Partial Budgets
- Partial Budgeting Procedure
- Partial Budget Format
- Factors to Consider

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Financial Component of Whole-Farm Business Plan



- Current Financial Assessment
- Strategic Analysis of Alternatives
- Financial Projections
- Financial Planning
- Planning Farm Size
- Improving Performance
- Incorporating the Financial Plan into the Whole-Farm Business Plan

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