

## 2007 Risk and Profit Conference

Building on the Past.....

Pursuing the Future

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Kansas Farm Management  
Association Program

## Why keep records?

- Income Tax Filing
- Banker says I need them
- Management of operation

You need your records much more than either  
your lender or the IRS

Good records are one of the keys to your farm  
operation's success . . . .  
One you can't do without

## Why keep records?

Record keeping is the first step to good management

- Know where you're at
- Track progress (or lack of it)
- Identify strengths and weaknesses
- Plan for the future
- Compare with benchmarks

## What do you need in a record keeping system?

- Accrual accounting—accurately measure your operation's profitability
- Important to separate into profit centers to identify where you are making or losing money
- Ability to track your operation's financial position and profitability over time
- Help you answer the question "is this really the best use of my resources?"

## **What kind of return are you getting for the resources you have invested in your farming operation?**

- Operator and family labor
- Capital
- Management

## **What tool do you use to track profitability?**

Does a completed Schedule F tell you if the year was profitable?

How about a complete record of cash income and expense and your year-end bank balance?

Maybe the net worth change on your market value balance sheet during the past year?

## **Record keeping can be:**

- Tedious
- Complex
- Time consuming

..... and I just don't like paperwork!

**But your record keeping system can be—**

**A VALUABLE BUSINESS MANAGEMENT TOOL!**

## Records provide essential data for:

- **Forward planning**
  - ✓ Goals and objectives
  - ✓ Long- and Short-run decision making
- **History of performance**
  - ✓ Understand your resource base and how you are using it
  - ✓ Compare with benchmarks
  - ✓ Identify strengths and weaknesses

## Records provide essential data for:

- **Control of your operation**
  - ✓ Detect problems and concerns
  - ✓ Make adjustments and changes
- **Filing of reports**
  - ✓ IRS
  - ✓ Lender
  - ✓ FSA
  - ✓ Crop Insurance
  - ✓ Other

## How should I use my records?

- **Statement of Cash Flows**
  - ✓ Source and uses of funds
  - ✓ Amount and timing
- **Balance Sheet**
  - ✓ Financial Position at a point in time
  - ✓ Change in Net Worth
  - ✓ Earned vs. FMV Net Worth
- **Accrual Income Statement**
  - ✓ Accrual Accounting gives more accurate picture
- **Comparative Analysis**
- **Trend Analysis**

## How should I use my records?

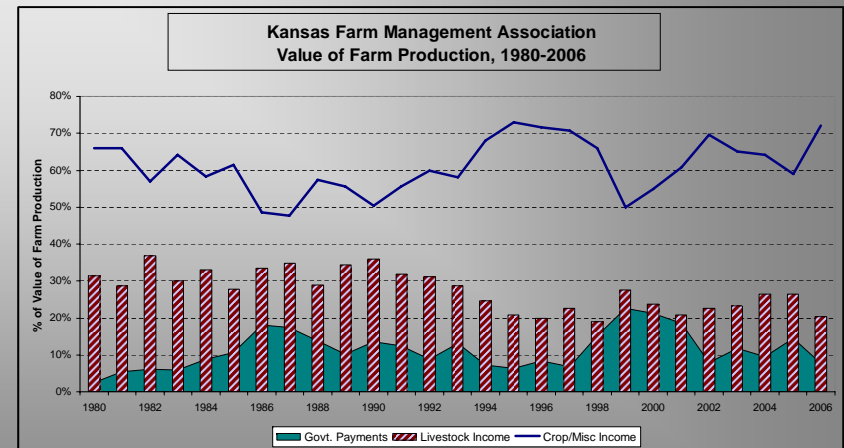
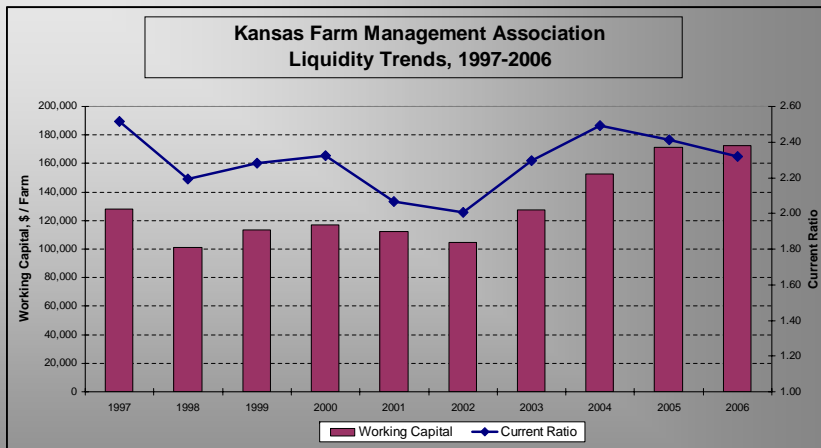
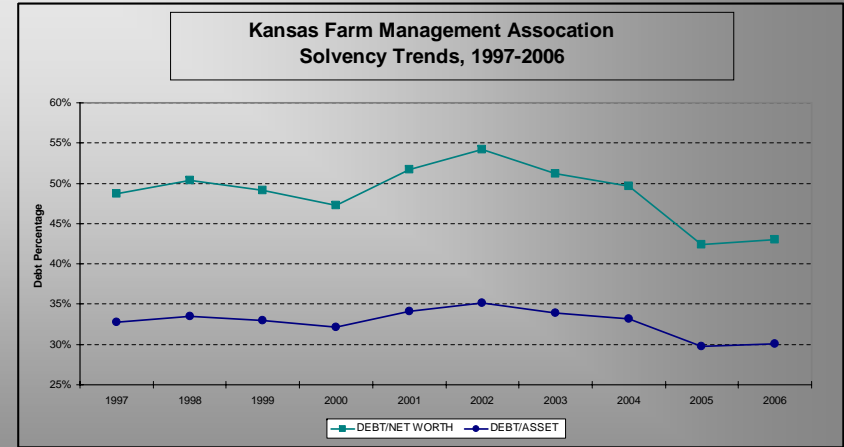
### Measures of:

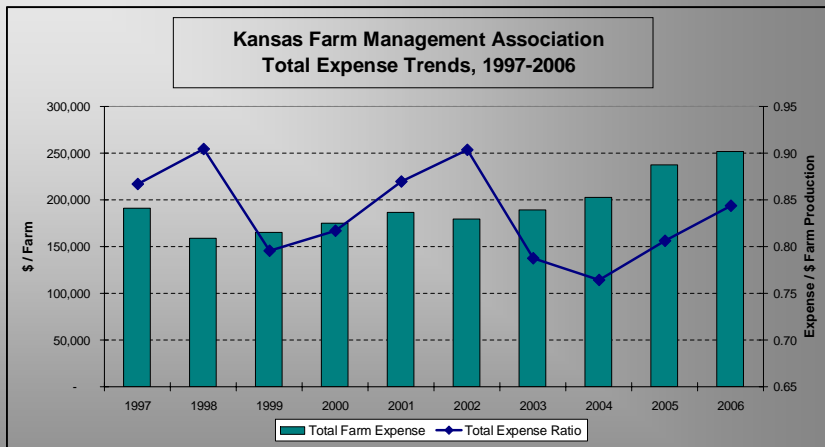
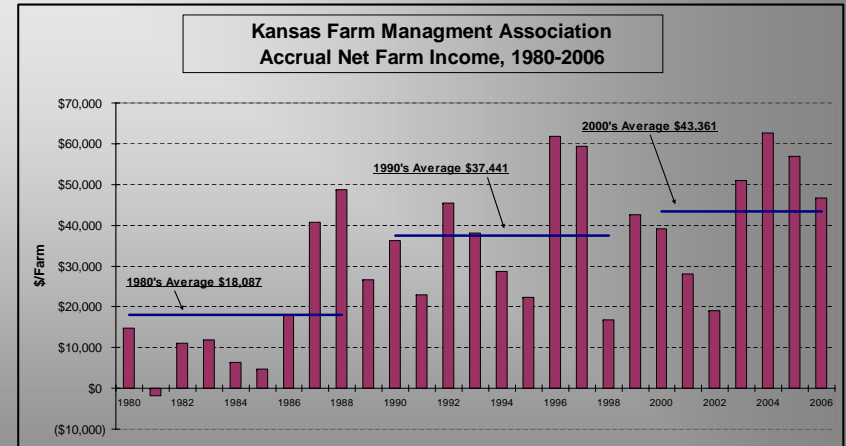
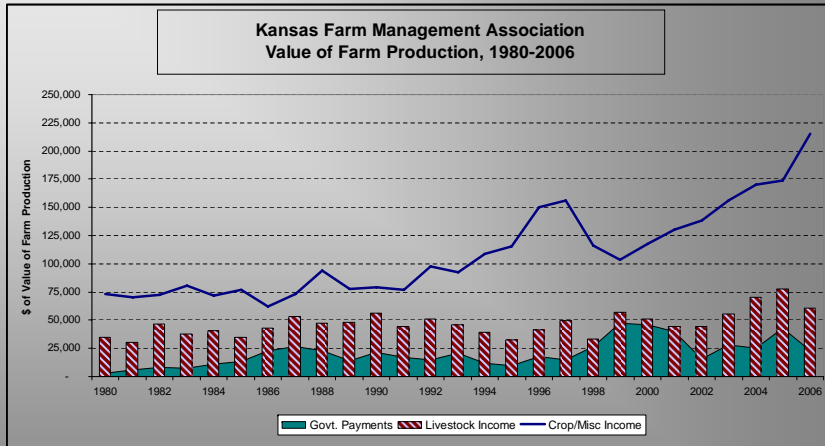
- **Solvency**
  - ✓ How strong/weak is my financial position?
  - ✓ Long-run ability to meet obligations
- **Liquidity**
  - ✓ Short-run ability to meet obligations
- **Profitability**
- **Efficiency**

# Examples:

## Whole-Farm Analysis Enterprise Analysis

Kansas Farm Management Association Databank



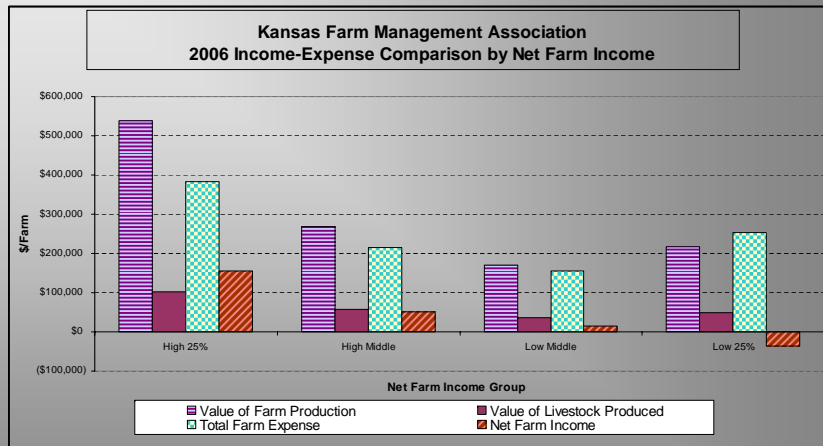


**Variability of Income**

**Management of Risk**

## KFMA Data 2006 Benchmarks

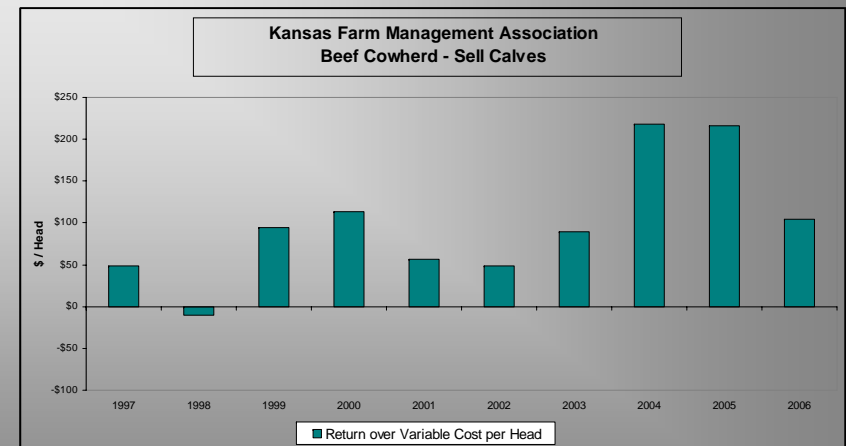
	<u>Average</u>	<u>Top 25%</u>
Value of Farm Prod'n	298,754	539,153
Net Farm Income	46,593	155,469
Unpd Labor/Mgmt	41,834	68,722
Operating Profit Margin	0.0808	0.2019
Asset Turnover	0.2864	0.3571
Total Exp Ratio	0.8440	0.7116
Adjusted Tot Exp Ratio	0.9841	0.8391
Economic Total Exp Ratio	1.1796	1.0064



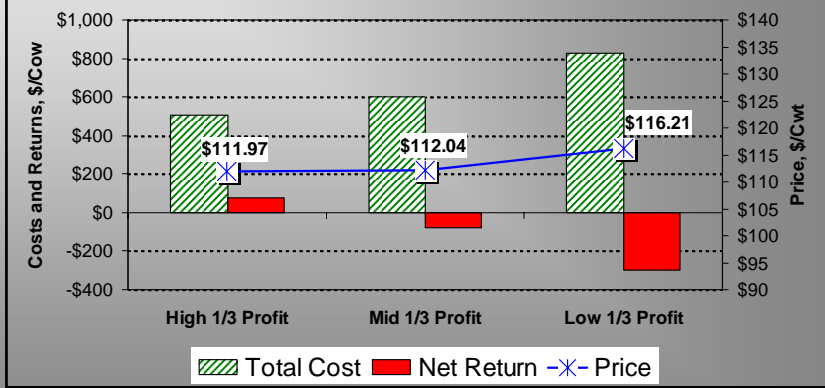
## KFMA Data Five-year Trend

➤ Average of 1,160 Farms with continuous data:

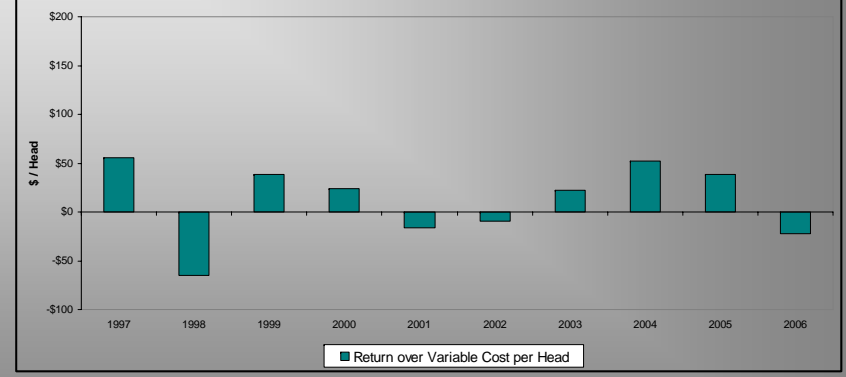
- ✓ Value of Farm Production = \$259,095
- ✓ Net Farm Income = \$51,085
- ✓ Unpaid Operator/Family Labor = \$42,423
- ✓ Operating Profit Margin = 0.0940
- ✓ Asset Turnover Ratio = 0.2942
- ✓ Total Expense Ratio = 0.803
- ✓ Adjusted Total Expense Ratio = 0.967
- ✓ Economic Total Expense Ratio = 1.156



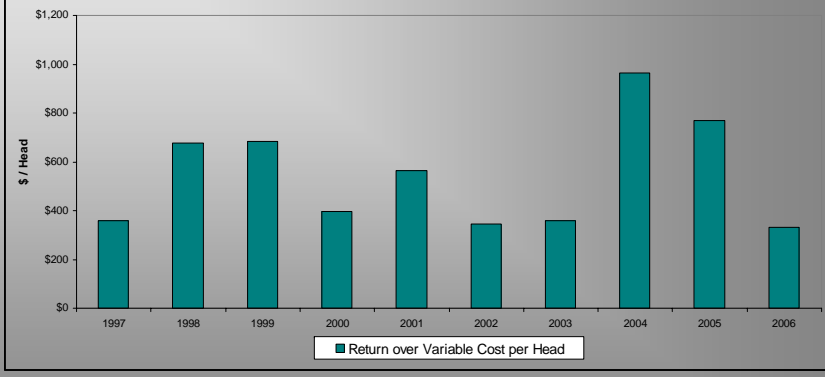
### KFMA Beef Cow, Sell Calves Enterprise



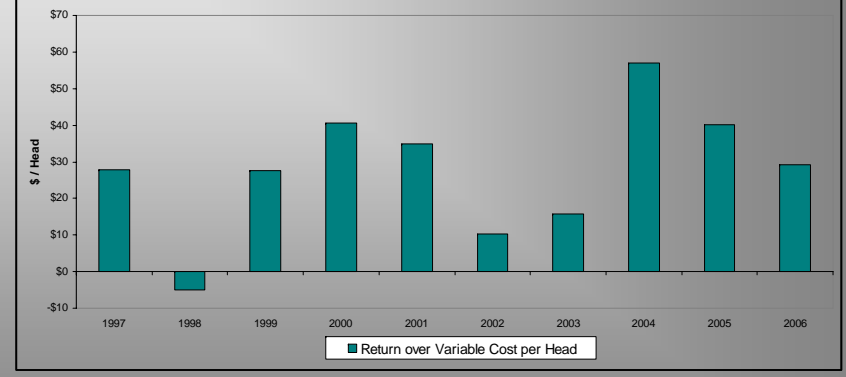
### Kansas Farm Management Association Beef Backgrounding

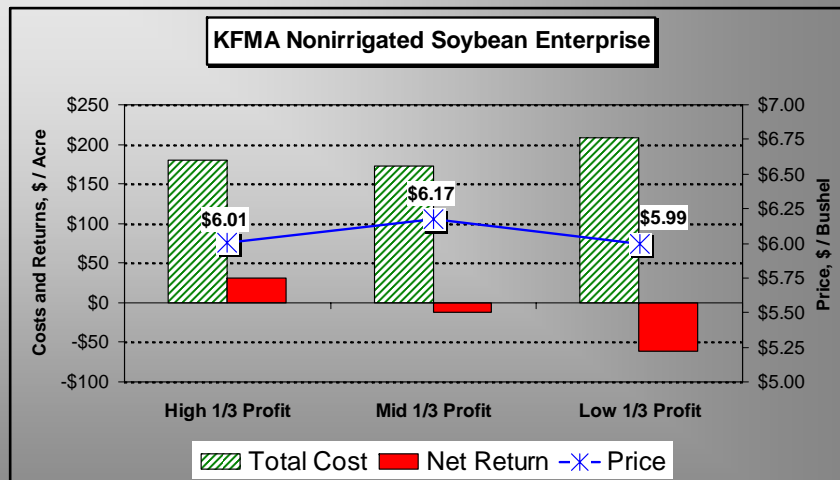
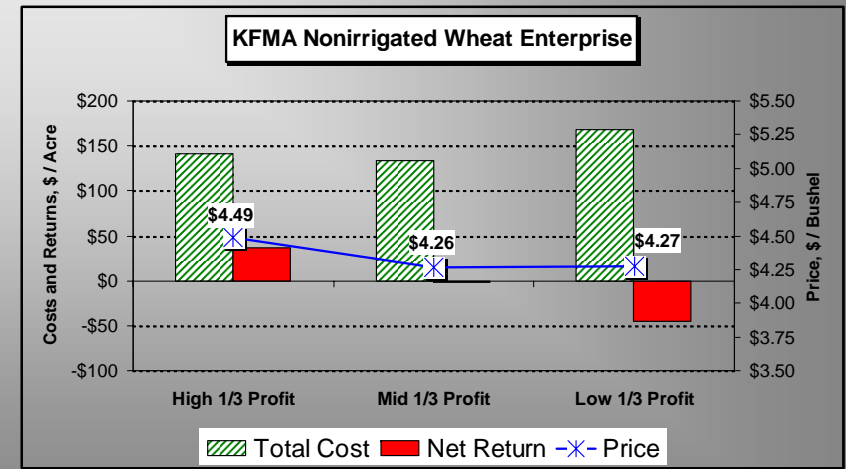
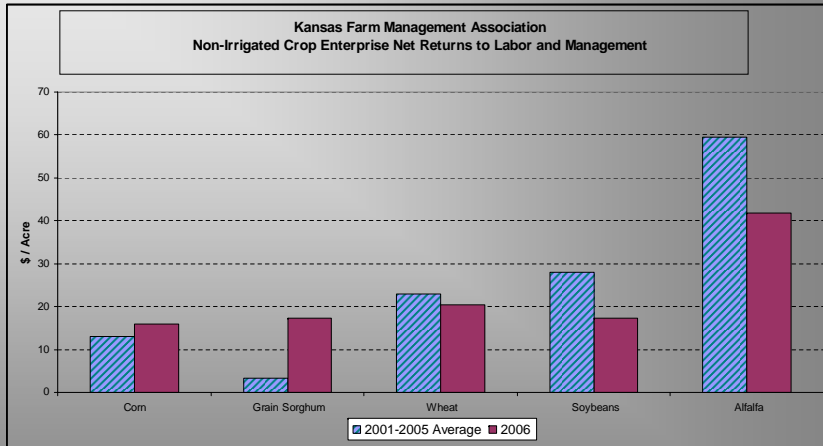


### Kansas Farm Management Association Dairy Cows



### Kansas Farm Management Association Sow & Litter, Sell Market Hogs





**Are the most profitable farms always the most profitable farms?**

## Profit Margin Persistence

- Study by Langemeier looking at persistence of performance
- It is difficult to consistently be in the top quartile in terms of the operating profit margin every year.
  - ✓ 3.82% of the farms were in the top quartile all four years
  - ✓ 12.51% of the farms were in the top quartile for three or more years
  - ✓ 29.56% of the farms were in the top quartile for two or more years
  - ✓ 53.86% of the farms were in the top quartile for one or more years

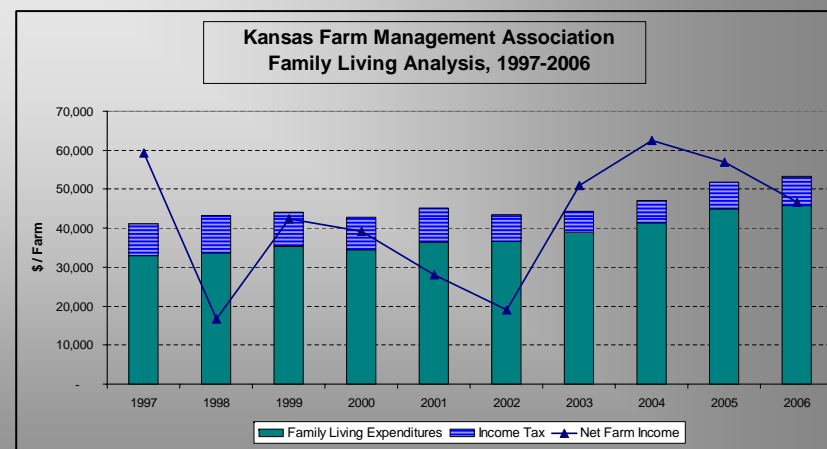
## Expense Ratio Persistence

- It is also difficult to consistently be in the top quartile in terms of the economic total expense ratio every year.
  - ✓ 4.14% of the farms were in the top quartile all four years
  - ✓ 15.06% of the farms were in the top quartile for three or more years
  - ✓ 29.48% of the farms were in the top quartile for two or more years
  - ✓ 51.07% of the farms were in the top quartile for one or more years

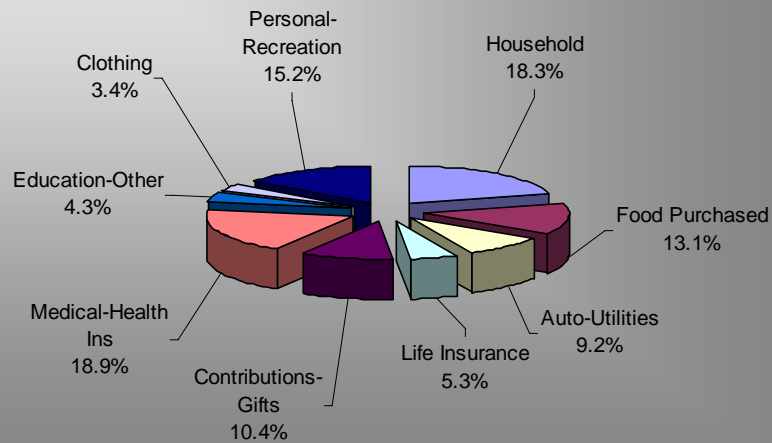
## What are you taking out of the farm business?

- Family Living Expenses
- Personal benefits—either to sole-proprietor or shareholders

Do you know how much you took out of the farm business last year for personal uses?



## **Kansas Farm Management Association 2006 Family Living Expenses**



## **Kansas Farm Management Association Program**

*Building on the past . . .*

## **Kansas Farm Management Association Program**

*Over 75 Years of History . . .*

*A Strong, Solid Foundation*

*One of the premier information sets of  
farm-level economic data available*

## **Kansas Farm Management Association Program**

*Building on the past . . .*

*Pursuing the Future*

## **Kansas Farm Management Association Vision/Mission . . .**

- Deliver educational programs and technical information
- Integrated research, analysis and education
- Enhance economic viability and quality of life
  - ✓ Sustainable and competitive agriculture
  - ✓ Improved economic choices and management decisions of individuals, families, farms

## **Kansas Farm Management Association**

- Over 2,300 farm operations representing over 3,000 farm families
- Valuable analysis databank
  - ✓ Over 1,550 farms for 2006
  - ✓ 1,160 farms with data from 2002-2006
  - ✓ 881 farms with 10-year history
  - ✓ 399 farms with 20-year history
- 20 Extension Agricultural Economists in six associations

## **Kansas Farm Management Association**

- Develop a sound farm accounting system
- Whole-farm and enterprise analysis
- Comparative and trend analysis
- Integrate tax planning, marketing and asset investment strategies
- Assistance in understanding financial information for making decisions
- Enhanced decision-making process

## **Kansas Farm Management Association Program**

**Building on the past . . .**

**Pursuing the Future**

## Web Sites for more Info

➤ Kansas Farm Management Association (KFMA)

✓ [www.kmar105.com/kfma](http://www.kmar105.com/kfma)

➤ Extension Agricultural Economics

✓ [www.agmanager.info](http://www.agmanager.info)



*Time is Life.....*

*Nothing More; Nothing Less*

The way you spend your hours and your days is  
the way you spend your life.

-Benjamin Franklin