



EXTENSION

Farm and Ranch Financial Trends Worksheet¹

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The farm and ranch financial trends worksheet provides insight into farm financial performance and changes in financial position. Most producers have developed balance sheets periodically for loan documentation and all producers should have copies of tax reports filed. The lender or accountant may be able to provide historical data if a report is missing. While better measures can be developed, the trends indicated here may be enlightening.²

From the Balance Sheet

Ideally, asset and debt figures should come from statements developed at the same time each year, such as January 1. Assets should be valued consistently using either cost or market valuation techniques. Cost-basis valuations will provide more meaningful comparisons for a specific farm over time. Deferred taxes (taxes that would be incurred if assets are sold) should be included in liabilities.

Is the value of owned assets increasing over time? In a profitable business, the value of assets calculated on a cost-basis are expected to increase over time if profits are reinvested in the business and not withdrawn for non-farm use. If market values (the amount for which assets could be sold, less taxes) are used for assets, fluctuations in the total value may reflect changes in market price in addition to profits or losses.

Are total debts increasing over time? If so, is this a planned event, for instance, because debt is being used to expand the business? If not, rising debt may signal increasing financial problems, particularly if it is operating debt or lines of credit that are increasing. Addressing problems early on is key to preventing business failure. A one-time increase in debt in five years may not be a problem, but multiple years of increases should be a cause for concern.

What is happening to total equity, that is, the owner's claim to assets? In a business where profits are reinvested over time, total equity should increase.

¹ Based on an earlier version by Damona Doye.

² Tax information may be used as a first step in financial analysis. However, better measures of financial position and performance require better data. For more information on financial statements and analysis, see OSU Fact Sheets AGE-751, AGE-752, AGE-753 and AGE-791.

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The debt to asset ratio indicates the proportion of total assets owed to creditors. The higher the ratio, the greater financial risk the business faces. Beginning operations that are financed through borrowing often have higher debt to asset ratios than established operations.

If the credit line is not being paid off during the year or credit card debt is accumulating, steps to correct financial problems are in order. Credit cards are an expensive form of debt and should be used primarily for convenience in payment, not to finance farm or personal assets or family living expenses.

From Tax Reports

Is gross income increasing? If not, why not? Are optimal production practices being used? Have the weather or market prices been the culprit every year or are changes in management practices in order?

High depreciation expenses typically indicate the purchase of new buildings, machinery, equipment, vehicles, and breeding livestock. This expense can be lowered by replacing these items less frequently. Very low or no depreciation expense may signal that little or no reinvestment in the farm is taking place and that large outlays may be necessary in the future, either in repairs or purchases. If repairs are a large portion of the total expense, consider the purchase of new (or at least different) machinery and equipment or custom hiring work done.

To survive, the farm business must show a profit most years unless substantial off-farm equity or income is available to subsidize the operation. Consistent losses suggest that the manager's skills and talents might be better suited to some other enterprise.

The interest expense ratio (interest expense/gross income) indicates the proportion of total income committed to interest payments. Farm operations are considered at risk once the ratio is 15 percent or higher.

From Family Financial Records

Can the farm or ranch reasonably be expected to cover family living expenses, and is the total reasonable? Kansas Farm Management Association data in 2020 indicated that family living expenses averaged \$71,901.

Farm Financial Trends Worksheet

Year (fill blank with year)

From the balance sheet

Total assets

Total debt

Total equity = Total assets - total debt

D/A ratio = Total debt/total assets

Credit line balance

Credit card debt

From Tax reports

Gross income (Schedule F, Line 9)

Interest expense (Schedule F, line 21a + line 21b)

Depreciation expense (Schedule F, line 14)

Repairs expense (Schedule F, line 25)

Net farm profit or loss (Schedule F, line 34)

Interest expense/Gross income

From family financial records

Family living expense

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