



# COMPREHENSIVE GUIDE TO FARM FINANCIAL MANAGEMENT

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[www.saskatchewan.ca/agriculture](http://www.saskatchewan.ca/agriculture)

# Comprehensive Guide to Farm Financial Management

November 2016

The purpose of this guide is to provide farm managers, and those who work with them, a tool to assist in the development and understanding of a comprehensive guide to the farm financial planning process.

The content of this guide will help you, as a manager, to:

- develop goals that you are committed to and that will guide the management of your farm and family;
- prepare and analyze financial statements to determine your potential financial ability to pursue stated goals; and
- develop a management plan to identify the activities and resources necessary to achieve your stated goals.

The guide outlines a set of suggested steps and, more importantly, highlights many of the considerable farm management, accounting and financial resources available.

The guide is divided into five main sections:

1. Interests, Motivations, Goals and Purpose
2. Record Keeping and Accounting Fundamentals
3. Farm Financial Statements
4. Financial Analysis and Determining Farm Financial Health, and
5. Action Planning.

Within each of these main sections are sub-sections, which identify specific tools and sources of information to assist in the development and understanding process.

This guide is not intended to be a complete list of all available resources. The guide outlines a suggested process and highlights some key resources that may be helpful. It is not intended that a farm manager utilize all resources in this guide at all times. Depending upon what level of understanding and development the manager is currently at, only some of the resources identified in this document may apply.

The Saskatchewan Ministry of Agriculture assumes no responsibility for the accuracy or completeness of information contained in this document. The website addresses provided and the material contained therein are subject to change on a continuing basis. All reasonable efforts are made to keep this resource guide current. The Saskatchewan Ministry of Agriculture would like to thank those who have prepared and maintained the various documents and websites referred to in this document.

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### **Introduction and Acknowledgements to “Taking Care of Business” Workbook**

“Taking Care of Business” was developed as a classroom and home-based study course in the early 1990s as a joint effort between the University of Saskatchewan - Department of Agriculture Economics, Saskatchewan Rural Development - Extension, Saskatchewan Agriculture and Food - Economics Branch and The Credit Unions of Saskatchewan.

The workbook was written by Bonny Voice, B.S.H. Ec., B. Ed. and Les Voice, P. Ag., prepared by the Agriculture Institute of Management in Saskatchewan, Inc. and published by the Saskatchewan Agriculture Development Fund.

The course was designed such that upon completion there would be an accomplishment of three performance objectives:

- The ability to develop goals that farm managers are committed to and that guide management of the farm and family units
- The ability to prepare and analyze farm financial statements to determine the potential financial ability to pursue those stated goals, and
- The ability to develop a management plan to identify the activities and resources necessary to achieve stated goals in the coming year.

This guide uses the 11 modules and supporting documents of “Taking Care of Business” as the basic approach to describing Comprehensive Farm Financial Management. Certain elements of this information have been amended to make them relevant to current situations. Also, several additional sources of information have been added to enhance the comprehensive nature of farm financial planning and management being attempted within this document.

Please refer to the following document for a full acknowledgement and description of the “Taking Care of Business” course material.

### **Saskatchewan Ministry of Agriculture**

[publications.gov.sk.ca/documents/20/85777-CGFFM\\_table\\_contents.pdf](http://publications.gov.sk.ca/documents/20/85777-CGFFM_table_contents.pdf)

### **SECTION 1: Interests, Motivations, Goals and Purpose**

#### **Introduction:**

Management is defined as the decision-making process whereby limited resources are allocated to a number of production, marketing and financing alternatives to achieve stated objectives.

This statement has three components:

- Goals – stated objectives to be reached
- Resources – information, land, labour and capital, that are limited in supply, and
- Alternatives – various ways to reach the stated objectives. Effective managers choose the alternative that will place the least claim on resources to achieve agreed upon goals.

All farm operations start with an idea. When you have an idea that you believe could be the basis for a good farm operation, there are several things you will want to consider and explore before proceeding. These will include doing a quick assessment on the merits of the idea, and

also whether operating a farm business is something you really want to do. This is critical and will lay the foundation of the farm business development process that will follow.

Taking an idea and developing a farm business takes considerable resources and time. This resource and time investment step is important as it determines whether you are prepared for the journey ahead. This will also assist in deciding whether the idea truly has potential and what will be required to make it successful.

**Saskatchewan Ministry of Agriculture – Identifying Interests and Motivations -**  
[publications.gov.sk.ca/documents/20/85778-CGFFM\\_Identifying\\_Interests\\_Motivations.pdf](http://publications.gov.sk.ca/documents/20/85778-CGFFM_Identifying_Interests_Motivations.pdf)

### **1.1 Identifying Interests and Motivations**

People are most willing to invest themselves and their available resources toward areas they find interesting and motivating. An understanding of the interests and motivations of all team members provides a framework for goal development.

#### **1.1.1 Individual Interest and Motivation Questionnaire**

Each farm manager should complete the questionnaire aimed at identifying their own unique and distinctive interests and motivations. This document is contained at the end of Module 1 of the Taking Care of Business Workbook and also at the address below.

**Saskatchewan Ministry of Agriculture – Identifying Interests and Motivations -**  
[publications.gov.sk.ca/documents/20/85799-CGFFM\\_Individual\\_Questionnaire.pdf](http://publications.gov.sk.ca/documents/20/85799-CGFFM_Individual_Questionnaire.pdf)

#### **1.1.2 Management Team Interest and Motivation Questionnaire**

Individual responses should now be combined and examined to identify potential goal-setting areas for the management team. This document is contained at the end of Module 1 of the Taking Care of Business Workbook and also at the address below.

**Saskatchewan Ministry of Agriculture – Identifying Interests and Motivations -**  
[publications.gov.sk.ca/documents/20/85800-CGFFM\\_Management\\_Questionnaire.pdf](http://publications.gov.sk.ca/documents/20/85800-CGFFM_Management_Questionnaire.pdf)

### **1.2 Developing Goal Statements**

Understanding your individual, family and farm management team's interests and motivations is the first step in determining goal development. This step can save a considerable amount of stress and anxiety in the long run as well as save time and money in the process.

Goals are about future desired conditions. Factors that influence the formation of goals include the aspirations of leaders and owners, the culture of the business and the communication of the goals. Management team goals are those to which the team is willing to commit themselves and their resources. They guide the management of the farm and family.

Goal setting helps to eliminate worry, assists in prioritizing work and imparts a sense of the size and scope of the tasks ahead. Goal statements provide a clear sense of direction and identify specific results to be achieved by specific dates. They motivate and inspire people and when achieved give people greater self-esteem. Goal setting propels people out of crisis management and into planned management.

### **1.2.1 Ten Rules of Goal Setting**

This document is referred to in Farm Credit Canada’s “Vision and Goal Setting” workshop and provides 10 rules to remember when creating goal statements.

- 1. Decide** – Every decision you make affects what you become. Once you make a decision, you start a path to a destination. Not making a decision can potentially limit your future.
- 2. Focus** – Once you start to focus on a goal, it becomes a magnet, pulling you toward it. The more focused your energies, the more power you generate.
- 3. Plan** – Strategize how you’ll attain a goal. What are the steps and tactics you need to do, to move forward to the end result? Planning also helps you prepare for potential issues or roadblocks.
- 4. Talk** – Tell people about your goal. Welcome feedback, comments, and criticism of your goals. When you involve others, it provides a level of accountability.
- 5. Write it down** – When goals aren’t written down, they are easily forgotten.
- 6. Act** – When you set a goal, there is a distance between your current state and the desired state. Unless you take action, your goals are a series of postponements, delays and missed opportunities.
- 7. Remain flexible** – You may find that achievements take longer than you first thought. It’s important to understand that goals can and do change. Change the goal if needed.
- 8. Use positive talk** – Examine your speech. You can and will inspire confidence in yourself with the words you use. Use language like “I will” or “I can” to bolster your confidence.
- 9. Measure** – What gets measured gets done. Measuring tells you where you are in relation to where you want to be. Second, it tells you how you are doing in the process of pursuing your goals.
- 10. Celebrate** – Recognize your achievements. When you reward the right behaviour and results, you almost guarantee a repeat performance.

### **1.2.2 Understanding the Goal Setting Process**

What are goals? Why are goals important? Why set separate goals for the farm and family? What are long-term goals? What are short-term goals? How are goals written? Why are goals ranked? What are potential goal-setting areas for your farm and family? These questions and many more are answered in this area.

**Saskatchewan Ministry of Agriculture – Developing Goal Statements**  
[http://publications.gov.sk.ca/documents/20/85781-CGFFM\\_Developing\\_Goal\\_Statements.pdf](http://publications.gov.sk.ca/documents/20/85781-CGFFM_Developing_Goal_Statements.pdf)

### **1.3 Goal Analysis**

Developing goals and being able to achieve them are two entirely different matters. Hopes and dreams cannot become reality unless resources are available to achieve them. Resources can be measured in physical terms – land, labour, capital, etc. – but the commitment of team members to goal achievement cannot be overlooked. The management team must identify which goals are most desirable and attainable.

### **1.3.1 Goal Analysis Process**

The management team uses the process of analysis to determine the most suitable and motivating team goals. Goal analysis is used to break each goal into smaller pieces so it can be examined. Then, informed goal choices can be made.

#### **Saskatchewan Ministry of Agriculture – Goal Analysis**

[publications.gov.sk.ca/documents/20/85784-CGFFM\\_Goal\\_Analysis.pdf](http://publications.gov.sk.ca/documents/20/85784-CGFFM_Goal_Analysis.pdf)

### **1.4 Additional Resources**

The following websites may be of interest in furthering an understanding of this section.

#### **Purdue University, Cooperative Extension Service – Establishing and Reaching Goals** (11<sup>th</sup> bullet down)

[agecon.uwyo.edu/RiskMgt/GeneralTopics/GENERALDEFAULT.htm](http://agecon.uwyo.edu/RiskMgt/GeneralTopics/GENERALDEFAULT.htm)

*Open communication and an effort to compromise will prevent and resolve conflicts that otherwise could disrupt the farm's progress. Remember that goals must be well-defined and realistic. They must be consistent with the overall philosophy of farm management.*

#### **Enterprising Rural Families: Making it Work™ - Strategic Planning and Goal Setting Course** (23<sup>rd</sup> bullet down)

[agecon.uwyo.edu/RiskMgt/GeneralTopics/GENERALDEFAULT.htm](http://agecon.uwyo.edu/RiskMgt/GeneralTopics/GENERALDEFAULT.htm)

*This course is a two-hour CD and internet-based course covering strategic management and goal setting for families in business across two modules and 9 lessons. Other materials include scenarios of two example families in business to illustrate various aspects of the course content, four worksheets and assessments, seven readings to expand on course material, and twenty-two interactive components and exercises to enhance participant learning.*

## **SECTION 2: Record Keeping and Accounting Fundamentals**

### **Introduction:**

Once you understand your interests and motivations and you have established, prioritized goal statements, then you are prepared to take the next step. Comprehensive farm financial management requires the development of a complete set of farm financial records and the basic understanding of accounting fundamentals for the proper set up and use of those records.

Farm record keeping is a systematic procedure for recording day-to-day information relating to the farm business – including both financial and production information.

Farm records reveal the financial performance and soundness of the total farm and individual enterprises. This information shows strong and weak areas of the farm business and serves as a starting point for planning decisions. Many planning decisions will involve a need for credit. Without adequate records it may be difficult deciding whether or not to borrow for a particular purpose. In discussing a loan application with a financial institution, it is important for the farmers to back up their request for a loan with proper information. This will provide the lender with evidence that progress is being achieved by the farm business.

There are many different accounting systems available from independent farm management businesses and professional accounting firms. It is necessary to have a system that gives you accurate information and the ability to monitor your financial condition. It is advisable to talk to a professional accountant for advice regarding the most appropriate financial recording systems for your farm operation.

### **2.1 What constitutes a complete set of farm records?**

This section will help you, as a farm manager, to get started with good financial records. It will help you to get organized and to know what records to keep and why. Most importantly, you will learn to understand what your farm records may be telling you. You will be able to make better and more informed decisions and efficiently produce information that accounting, financial and government institutions require. You will do a better job of managing your farm business.

You will learn in this section the importance of accrual accounting or accounting based on the full year of operation and not just the sales and expenses when they actually occur. Presently, farm income may be filed on the cash method for income tax purposes. That remains your choice. But you should not expect to manage effectively in today's business environment without farm records set up on an accrual basis. Using the accrual accounting method is the only way to have the information you need to analyze your business, to prepare business ratios and to satisfy your own needs for good information.

#### **2.1.1 Agricultural Records and Accounting**

The document entitled "Farm Financial Records: A Guide to Managing For Success," published by Farm Management Canada provides an introductory understanding of farm financial records, no matter what type of crop or livestock enterprise you operate. The authors walk you through the key elements of each farm financial statement and what these statements tell you. Even if you do not personally maintain your financial

records or produce your financial statements, it is important that you understand what these records and statements are telling you, so you can make more informed decisions and better manage your farm business. This is available for purchase only in booklet form. Please refer specifically to Chapter 2, pages 9 – 28.

**Farmcentre.com – Farm Management Canada – Farm Financial Records**

<http://www.fmc-gac.com/publications/farm-financial-records-guide-managing-success>

**2.2 What are journal entries? What constitutes a “Chart of Accounts”?**

A journal entry is simply a written entry to the journal book. A journal is a record that keeps accounting transactions in chronological order, as they occur. An account is a unit to record and summarize accounting transactions. All accounting transactions are recorded through journal entries that show account names, amounts, and whether those accounts are recorded on the debit or credit side of accounts.

**Accounting Study Guide – Journal Entries**

[accountinginfo.com/study/je/je-01.htm](http://accountinginfo.com/study/je/je-01.htm)

**2.3 The General Ledger**

A ledger is a record that keeps accounting transactions by accounts. The general ledger is a collection of the farm’s accounts. While the general ledger is organized as a chronological record of transactions, the ledger is organized by account. In casual use the accounts of the general ledger often take the form of simple two-column T-accounts. In the formal records of the farm business they may contain a third or fourth column to display the account balance after each posting.

**Accounting Coach – What is a General Ledger Account**

[www.accountingcoach.com/blog/what-is-a-general-ledger-account](http://www.accountingcoach.com/blog/what-is-a-general-ledger-account)

**2.4 Additional Resources**

The following websites may be of interest in furthering an understanding of this section.

**South Dakota State University – Record Keeping in Farm Management**

[pubstorage.sdstate.edu/AgBio\\_Publications/articles/ExEx5054.pdf](http://pubstorage.sdstate.edu/AgBio_Publications/articles/ExEx5054.pdf)

*The purpose of this document is to discuss the importance of farm record keeping and provide producers with methods to start record keeping practices or improve their current procedures.*

**Iowa State University Extension – Farm Accounting Software**

[www.extension.iastate.edu/feci/annie/FAS.pdf](http://www.extension.iastate.edu/feci/annie/FAS.pdf)

*When it comes to selecting accounting software think about where you are at now and where you eventually want to end up.*

## **SECTION 3: Farm Financial Statements**

### **Introduction:**

Now that you have a basic understanding of accounting fundamentals and have created a complete set of farm records, the next step is to create a complete set of farm financial statements. These are the backbone of farm business analysis.

The three major financial statements needed to carry out the control function of the farm business are the balance sheet or net worth statement, the income statement and the statement of cash flow or statement of changes in financial position.

Statements may also be created for special informational needs. Examples may include historical (past) financial statements or projected/pro-forma (future) financial statements.

### **3.1 Preparing a Balance Sheet or Net Worth Statement**

The balance sheet or net worth statement is one of the most common financial statements used in business today. It provides a “snap shot” view of the financial health of the business at a given point in time. Maintaining accurate asset and liability listings is integral to balance sheet development.

The net worth statement, as the name implies, shows the net worth for the business owner(s) at a specific point in time. It is sometimes referred to as a statement of assets, liabilities and owner’s equity (at market value). The net worth statement is similar to the balance sheet, but it uses market values as opposed to original costs. This statement also lists all assets and liabilities of a business but the assets are recorded at their fair market value on the date the net worth statement was prepared.

The balance sheet provides the foundation for accrual basis accounting. The balance sheet is a financial statement that provides a summary of what the business owns (assets), what the business owes to creditors (liabilities) and what it owes to the owners (owner’s equity). It is also referred to as a statement of assets, liabilities and owner’s equity or statement of financial position. Accountants generate the balance sheet from a double entry accounting system where debits and credits must be equal. It must always be in balance in accordance with the equation.

### **Saskatchewan Ministry of Agriculture – Preparing a Net Worth Statement**

[publications.gov.sk.ca/documents/20/85779-CGFFM\\_Preparing\\_Net\\_Worth\\_Statement.pdf](http://publications.gov.sk.ca/documents/20/85779-CGFFM_Preparing_Net_Worth_Statement.pdf)

### **3.2 Preparing Income Statements**

An income statement summarizes income and expense and the resultant net income for an operation. It is sometimes called an operating statement, profit and loss statement or statement of income and expenses. Cash income statements make the summary on a cash basis. Accrued income statements summarize the value of production and the cost of production to produce a “true” net income for the farm.

The purpose of the income statement is to provide information, in summary form, on the results of the business operations for a given time period, for example, a fiscal year. A fiscal year is an accounting period of 12 consecutive months. Most fiscal years correspond to the calendar year

although some businesses use a non-calendar fiscal year to match their production cycle or income tax strategy (e.g. limited companies). A business usually completes an income statement at the end of its accounting period. Some large businesses will complete a quarterly or even monthly statement, as well. Accounting software can help provide statements at any time.

#### **Saskatchewan Ministry of Agriculture – Preparing Income Statements**

[publications.gov.sk.ca/documents/20/85790-CGFMM\\_Preparing\\_Income\\_Statements.pdf](http://publications.gov.sk.ca/documents/20/85790-CGFMM_Preparing_Income_Statements.pdf)

### **3.3 Preparing Cash Flow Statements**

Cash flow statements record all the cash flowing into and out of the farm business each year. Well prepared, accurate projected cash flow statements allow the manager to keep the farm business on target and to identify periods of potential cash surplus or cash deficit. They act much like a budget that the farm manager strives to follow.

The statement of cash flow or statement of changes in financial position or statement of source and application of funds, is the third major financial statement needed to carry out the control function of the farm business. A statement of cash flow summarizes (on a cash basis) the operating, financing and investing activities of a farm business for a specified time period. It provides insight as to why the cash position of the business has changed during the period. The objective of this statement is to provide information to the user (e.g. manager, lender or consultant) about the liquidity and solvency of the business. It is important to note that a profitable business, in some circumstances, may experience a deteriorating cash position and reduced owner's equity which could lead to an insolvent position.

#### **Saskatchewan Ministry of Agriculture – Preparing Cash Flow Statements -**

[publications.gov.sk.ca/documents/20/85783-CGFFM\\_Preparing\\_Cash\\_Flow\\_Statements.pdf](http://publications.gov.sk.ca/documents/20/85783-CGFFM_Preparing_Cash_Flow_Statements.pdf)

### **3.4 Additional Resources**

The following websites may be of interest in furthering an understanding of this section.

#### **Farmcentre.com – Farm Management Canada – Farm Financial Records**

[www.fmc-gac.com/publications/farm-financial-records-guide-managing-success](http://www.fmc-gac.com/publications/farm-financial-records-guide-managing-success)

*The document entitled “Farm Financial Records: A Guide to Managing For Success” published by Farm Management Canada provides an introductory understanding of farm financial statements. This is available for purchase only in booklet form. Please refer specifically to Chapter 3, pages 31 – 53.*

## **SECTION 4: Financial Analysis and Determining Farm Financial Health**

### **Introduction:**

Financial analysis is the key tool in determining farm financial health. Here you will learn what constitutes basic financial analysis and how to implement these tools to analyze your farm financial statements.

To prosper or survive in uncertain economic times, it is imperative that the farm manager maintain a good set of production and financial records. To obtain the maximum benefit from these records or accounts, they must be analyzed and used in business planning, tax planning and estate planning. The following are some of the tools for analysis that help the management team to improve business performance, which in turn helps the farm family to achieve both business and family goals and objectives.

### **4.1 Net Worth Statement Analysis**

Application of the information contained in the net worth statement is accomplished by the analysis of the various relationships between its three components – assets, liabilities and net worth. This allows you to develop a detailed picture of the financial health of the farm business at a specific point in time. Proper use of these financial health indicators will help you make sound farm business management decisions.

#### **Saskatchewan Ministry of Agriculture – Net Worth Statement Analysis**

[publications.gov.sk.ca/documents/20/85782-CGFFM\\_Net\\_Worth\\_Statement\\_Analysis.pdf](http://publications.gov.sk.ca/documents/20/85782-CGFFM_Net_Worth_Statement_Analysis.pdf)

### **4.2 Income Statement Analysis**

Do you know if your farm business is making a profit? Cash income statements often present a sense of false security because they do not reflect the real profit produced in a year. Accrued income statements provide a “true” measure of business profitability and allow the manager to analyze the operation on a profitability basis. This information can be used to determine the prospects for future expansion for both the farm and the family.

#### **Saskatchewan Ministry of Agriculture – Income Statement Analysis**

[publications.gov.sk.ca/documents/20/85792-CGFFM\\_Income\\_Statement\\_Analysis.pdf](http://publications.gov.sk.ca/documents/20/85792-CGFFM_Income_Statement_Analysis.pdf)

### **4.3 Cash Flow Statement Analysis**

The importance of analyzing and applying the information recorded in cash flow statements to make sound management decisions cannot be over emphasized. Lack of cash flow is often the stumbling block to many plans for farm and family. Identifying periods with a potential cash flow surplus or cash flow deficit allows the manager to take advantage of opportunities as they arise or to plan for periods when cash is short.

#### **Saskatchewan Ministry of Agriculture – Cash Flow Statement Analysis**

[publications.gov.sk.ca/documents/20/85788-CGFFM\\_Cash\\_Flow\\_Statement\\_Analysis.pdf](http://publications.gov.sk.ca/documents/20/85788-CGFFM_Cash_Flow_Statement_Analysis.pdf)

### **4.4 Combined Financial Statement Analysis**

Combined financial statement analysis allows the management team to identify strengths, weaknesses and opportunities in the farm business. This information identifies financial resources available to pursue management team goals. Goal choices can be finalized as the

financial requirement of each management team goal is compared with the financial resources available. Goals that “survive” analysis are the prioritized or most suitable management team goals.

#### **Saskatchewan Ministry of Agriculture – Combined Financial Statement Analysis**

[publications.gov.sk.ca/documents/20/85793-CGFFM\\_Combined\\_Financial\\_Statement\\_Analysis.pdf](http://publications.gov.sk.ca/documents/20/85793-CGFFM_Combined_Financial_Statement_Analysis.pdf)

#### **4.5 Additional Resources**

The following websites may be of interest in furthering an understanding of this section:

#### **Farmcentre.com – Farm Management Canada – Using Records for Analysis and Growth**

[www.fmc-gac.com/publications/farm-financial-records-guide-managing-success](http://www.fmc-gac.com/publications/farm-financial-records-guide-managing-success)

*The document entitled “Farm Financial Records: A Guide to Managing For Success” published by Farm Management Canada provides an introductory understanding of using farm financial records for analysis and growth. This is available for purchase only in booklet form. Please refer specifically to Chapter 4, pages 55 – 72.*

### **SECTION 5: Action Planning**

#### **Introduction:**

A management plan is a plan of action developed to direct farm and family activities and available resources toward achievement of prioritized management team goals. It is a key tool which is developed to assist the individual and/or management group in achieving its goals and objectives.

Management of a farm business is a complex job. Many factors are involved. Some of these factors are internal to the farm business such as the production process and labour usage. Some are external factors such as interest rates and trade regulations. All of these factors need to be addressed through a management process of Planning, Organizing, Directing and Controlling.

#### **5.1 Developing a Farm Financial Management Plan**

The management plan is a goal-directed action plan for the team to follow. It changes constantly to focus on current ambitions, opportunities, limitations and needs of the management team.

##### **5.1.1 Action Planning**

To pursue goal achievement, the team needs to know what has to happen and what is required to make it happen. A management plan provides the team with a yearly plan of action to follow toward goal achievement. It is used by the team to identify goals and activities to be accomplished and the resources of time, people and finances required to achieve management team goals.

#### **Saskatchewan Ministry of Agriculture – Developing a Management Plan**

[publications.gov.sk.ca/documents/20/85794-CGFFM\\_Developing\\_Management\\_Plan.pdf](http://publications.gov.sk.ca/documents/20/85794-CGFFM_Developing_Management_Plan.pdf)

### **5.1.2 Planning, Organizing and Directing the Farm Business**

The document entitled “Farm Financial Records: A Guide to Managing For Success” published by Farm Management Canada provides an introductory understanding of using farm financial records for farm management planning. This is available for purchase only in booklet form. Please refer specifically to Chapter 5, pages 75 – 78.

#### **Farmcentre.com – Farm Management Canada – Using Records for Analysis and Growth**

[www.fmc-gac.com/publications/farm-financial-records-guide-managing-success](http://www.fmc-gac.com/publications/farm-financial-records-guide-managing-success)

## **5.2 What Else?**

Where do you go from here? What other farm management areas may need further development? What are the most critical farm management areas? How do I integrate all of this information into a completed farm business development plan?

### **5.2.1 The Nine Critical Farm Management Areas**

The Saskatchewan Ministry of Agriculture has gathered and developed various information and tools to assist with the adoption of progressive farm business management practises in several critical areas. The areas focused upon are: Business Strategy, Marketing Strategy, Production Economics, Human Resources, Financial Management, Environmental Strategy, Succession Planning and Business Structure.

The purpose of this work is to lead to enhanced farm profitability by providing access to business information, training and private professional business services.

#### **Saskatchewan Ministry of Agriculture**

[www.saskatchewan.ca/business/agriculture-natural-resources-and-industry/agribusiness-farmers-and-ranchers/farm-business-management](http://www.saskatchewan.ca/business/agriculture-natural-resources-and-industry/agribusiness-farmers-and-ranchers/farm-business-management)

### **5.2.2 Taking Stock**

Taking Stock helps farmers understand their needs for growth and development in their business. Its purpose is to measure current business practices and help farmers identify information, training programs and consulting services that they can use to improve their use of progressive business practices in their business. Taking Stock is delivered by the Ministry at no cost to the farmer.

#### **Saskatchewan Ministry of Agriculture – Taking Stock Self Assessment Tool**

<http://fbdi.gov.sk.ca>

### **5.2.3 The Farm Business Development Initiative**

The Farm Business Development Initiative helps farmers to develop farm management plans and enhance business skills in all eight of the business practice areas mentioned above. Up to \$10,000 is available to qualified applicants to help them engage private sector business services and/or access farm-related education and training programs.

#### **Saskatchewan Ministry of Agriculture – Farm Business Development Initiative**

<http://fbdi.gov.sk.ca>

### **5.3 Additional Resources**

The Saskatchewan Ministry of Agriculture has 10 Regional Offices, located throughout the province, available to provide farmers and ranchers, producer groups and industry with access to production and business information and services. Our Regional Specialists offer advice and support to all types of livestock, crops, forage and value-added processing businesses. They will help you access the programs and services you need.

#### **Saskatchewan Ministry of Agriculture – Regional Office Locations and Contact Information**

[www.saskatchewan.ca/business/agriculture-natural-resources-and-industry/agribusiness-farmers-and-ranchers/agriculture-regional-offices](http://www.saskatchewan.ca/business/agriculture-natural-resources-and-industry/agribusiness-farmers-and-ranchers/agriculture-regional-offices)

## Appendix 1 – Glossary of Terms

<b>Account Payable</b>	Money owed by the business for the payment of expenses.
<b>Account Receivable</b>	Money owed to the business for the sale of goods and services.
<b>Accrued Income Statement</b>	A statement summarizing income when goods are produced and expense associated with producing those goods, when it is incurred, over a specified period of time.
<b>Accrued Interest</b>	Interest accumulated on a term loan from the date of the last principal payment.
<b>Analysis</b>	The separation of a whole into its parts so as to determine the nature of the whole.
<b>Assets</b>	The owned things of value and resources of the farm business or things of value and resources owed to the business.
<b>Activities</b>	Actions that take place on a day-to-day basis.
<b>Balance Sheet</b>	A listing of assets (traditionally valued at cost less accumulated depreciation) and liabilities of a business and the resultant owner's equity at a given point in time.
<b>Business</b>	A collection of resources devoted to the production of goods and services to generate a profit.
<b>Cash Flow Statement</b>	A record of all the cash flowing into and out of the business over a specified period of time.
<b>Cash Income Statement</b>	A statement summarizing farm operating income when it is received as cash and farm operating expense when paid for by cash over a specified period of time.
<b>Current Assets</b>	The most liquid assets that can easily be converted into cash within the accounting period (one year).

<b>Current Liabilities</b>	Debts that are due now or will come due within the accounting period (one year).
<b>Current Ratio</b>	A relative measure of liquidity expressed as a ratio by dividing current assets by current liabilities. May also be called the Liquidity Ratio.
<b>Debt Ratio</b>	A relative measure of solvency expressed as a ratio by dividing total liabilities by total assets. May also be called the Solvency Ratio or Debt to Asset Ratio.
<b>Debt Service Capacity</b>	The measure of the ability of the business to repay all debt from both farm and non-farm income.
<b>Debt Structure Ratio</b>	A relative measure of liquidity expressed as a ratio by dividing current liabilities by total liabilities.
<b>Depreciation</b>	The loss in value of capital assets over time due to use, age and obsolescence.
<b>Earning Performance</b>	The extent to which a business generates a surplus of revenue over expenses from the use of its resources in the production process. May be equated to profitability.
<b>Effective Management</b>	The achievement of agreed upon goals using a minimum of resources.
<b>Equity</b>	Claims against the assets of a business held by the owners of the business.
<b>Financial Statements</b>	Formal accounting reports disclosing financial information about the operations and condition of a business.
<b>Fixed Assets</b>	The most permanent production assets in which its useful life generally exceeds ten years.
<b>Goal Directed Management</b>	The effective use of resources to achieve goals.
<b>Goals</b>	Statements of objectives to be achieved in the future.

<b>Income Statement</b>	A statement of income and expense for an accounting period. May be called a profit and loss statement.
<b>Intermediate Assets</b>	Working assets that are used to support farm production and that have a useful life of between one and ten years.
<b>Intermediate Liabilities</b>	Those debts that had an original principal repayment schedule of between one and ten years.
<b>Inventory</b>	A listing of all physical and financial items owned by a business.
<b>Leverage Ratio</b>	A relative measure of solvency expressed as a ratio by dividing total liabilities by net worth. May also be called debt equity ratio.
<b>Liabilities</b>	Financial claims against the owned assets by others outside the farm business.
<b>Liquidity</b>	The ability of the business to meet its financial obligations as they come due.
<b>Long Term Goals</b>	Statements of objectives to be achieved in three or more years.
<b>Long Term Liabilities</b>	Debts that had an original principal repayment schedule greater than ten years.
<b>Management</b>	The decision making process whereby limited resources are allocated to a number of production, marketing and financing alternatives to achieve stated objectives.
<b>Management Team</b>	Two or more people working together to manage the farm business and family unit.
<b>Management Team Goals</b>	Goals to which the team is willing to commit themselves and their resources.
<b>Margin For Growth</b>	The funds available for re-investment in the farm business or savings after meeting all financial claims (farm and family) on all available sources of income (farm and non-farm).

<b>Net Worth</b>	The difference between total assets and total liabilities that represents the proportion of ownership in the business (owner's equity).
<b>Net Worth Statement</b>	Lists all assets and records all liabilities of a business at fair market value with the difference showing as net worth (owner's equity) at a specific point in time.
<b>Owner's Equity</b>	The proportion of ownership in a business represented by the excess of total assets over total liabilities. Can be equated with net worth.
<b>Percent Return to Assets</b>	A relative measure of profitability expressed as a ratio by dividing the Return to Assets by Beginning Assets.
<b>Percent Return to Equity</b>	A relative measure of profitability expressed as a ratio by dividing the Return to Equity by Beginning Equity.
<b>Planning</b>	The process of thinking through what is desired and how it will be achieved in the future.
<b>Prioritized Management Team Goals</b>	Goals to which the team is willing and able to commit themselves and their resources.
<b>Product Inventory</b>	Items produced by the business and held for sale.
<b>Profitability</b>	The extent to which a business generates a surplus of revenue over expenses from the use of its resources in the production process. May be equated to earning performance.
<b>Resources</b>	Supplies that can be drawn on.
<b>Return to Assets</b>	An absolute measure of earning performance of all assets under the control of the business determined by subtracting the amount of unpaid family labour and management and adding the amount of term interest to Accrued Net Farm Income.
<b>Return to Equity</b>	An absolute measure of earning performance of all equity capital invested in the business determined by subtracting the amount of unpaid family labour and management from Accrued Net Farm Income.

**Short Term Goals**

Statements of objectives to be achieved in the next one to two years.

**Solvency**

The ability of a business to meet its total debt obligations from a liquidation of its total assets.

**Supply Inventory**

Items bought for use in the production process but that are still on hand.

**Working Capital**

A measure of liquidity determined by subtracting current liabilities from current assets.

## Appendix 2- Financial Formulas

<b>Working Capital</b>	=	Current Assets – Current Liabilities
<b>Current Ratio</b>	=	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$
<b>Debt Structure Ratio</b>	=	$\frac{\text{Current Liabilities}}{\text{Total Liabilities}}$
<b>Debt Ratio</b>	=	$\frac{\text{Total Liabilities}}{\text{Total Assets}}$
<b>Leverage Ratio</b>	=	$\frac{\text{Total Liabilities}}{\text{Net Worth}}$
<b>Average Cash Balance for Period</b>	=	$\frac{\text{Opening Cash Balance} + \text{Net Cash Balance}}{2}$
<b>Interest Charged for Period</b>	=	$\frac{\text{Average Deficit Cash Balance} \times \text{Interest Rate}}{\text{Time Period}}$
<b>Return to Assets</b>	=	Accrued Net Farm Income – Unpaid Labour + Term Interest
<b>Percent Return to Assets</b>	=	$\frac{\text{Return to Assets}}{\text{Beginning Assets}} \times 100$
<b>Return to Equity</b>	=	Accrued Net Farm Income – Unpaid Labour
<b>Percent Return to Equity</b>	=	$\frac{\text{Return to Equity}}{\text{Beginning Equity}} \times 100$