Interpreting Financial Statements And Measures

Use your financial statements effectively

- Learn to use your financial statements in day-to-day management
- Understand how to interpret common financial statements
- Acquire a powerful skill set to enhance your farm business
- Gain self-confidence in the area of finance

Click Here to Begin

Learn more about Interpreting Financial Statements and Measures

Helping those in need
This site was created to help producers understand how to interpret common financial statements.

Teaching across the country
Our video training can be accessed by anyone with an internet connection, anywhere.

Leveraging financial statements
Learn to use your financial statements in day-to-day management of your farm businesses.

North Central Risk Management Education Center
IFSAW was made possible with funding from the North Central RME Center.

Center for Farm Financial Management
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Interpreting Financial Statements and Measures

• An online workshop series to help producers interpret and use financial information in managing their farm or ranch business
  - Financial statements
  - Financial ratios and measures
Interpreting Financial Statements and Measures

• **Goals**
  - Help producers understand farm financial statements and measures
  - Provide them some benchmarks
  - Help them use farm financial statements and measures in decision-making
  - Provide a teaching tool that can be used as part of farm financial management education programs
Interpreting Financial Statements And Measures

with Dale Nordquist and Bob Craven
Interpreting Financial Statements and Measures

• Delivery – Dale Nordquist and Bob Craven
• Technical production – Jeff Reisdorfer
• Web backbone – Laurie Dickinson
Interpreting Financial Statements and Measures

• **Tools used:**
  - FFSC “Financial Guidelines for Agricultural Producers” ([www.ffsc.org](http://www.ffsc.org))
  - FINPACK ([www.cffm.umn.edu](http://www.cffm.umn.edu))
  - Case farm examples
  - Interactive activities
Interpreting Financial Statements and Measures

- Financial statements:
  - Balance sheet
  - Income statement
  - Statement of owner’s equity
  - Statement of cash flows or cash flow budget
Interpreting Financial Statements and Measures

- **Major Assumption**
  - They have the data
Interpreting Financial Statements and Measures

• **Ratios and measures:**
  - Liquidity
  - Solvency
  - Profitability
  - Repayment capacity
  - Efficiency
Interpreting Financial Statements and Measures

• **Ratios and measures:**
  - Liquidity
    • Current ratio
    • Working capital
    • Working capital to gross revenue
  - Solvency
  - Profitability
  - Repayment capacity
  - Efficiency
Interpreting Financial Statements and Measures

• **Ratios and measures:**
  - Liquidity
  - Solvency
    • Debt to asset ratio
    • Equity to asset ratio
    • Debt to equity ratio
  - Profitability
  - Repayment capacity
  - Efficiency
Interpreting Financial Statements and Measures

- Ratios and measures:
  - Liquidity
  - Solvency
  - Profitability
    - Rate of return on farm assets
    - Rate of return on farm equity
    - Operation profit margin
    - Net farm income
    - EBITDA
  - Repayment capacity
  - Efficiency
Interpreting Financial Statements and Measures

- Ratios and measures:
  - Liquidity
  - Solvency
  - Profitability
  - Repayment capacity
    - Capital debt repayment capacity
    - Capital debt repayment margin
    - Replacement margin
    - Term debt coverage ratio
    - Replacement margin coverage ratio
  - Efficiency
Interpreting Financial Statements and Measures

- Ratios and measures:
  - Liquidity
  - Solvency
  - Profitability
  - Repayment capacity
  - Efficiency
    - Asset turnover rate
    - Operating expense ratio
    - Depreciation expense ratio
    - Interest expense ratio
    - Net farm income ratio
Welcome to FINBIN, one of the largest and most accessible sources of farm financial and production benchmark information in the world. FINBIN places detailed reports on whole farm, crop, and livestock financials at your fingertips.

With just a few clicks of the mouse, you can see reports such as:
- Cost and returns from Roundup Ready soybeans
- Dairy cost and returns by size or location of herd
- Farm financial standards measures by type or size of farm

The possibilities are endless. Select Whole Farm Reports, Crop Reports, or Livestock Reports to create your own custom report.

FINBIN WINS AAEA AWARD

—July 28, 2006

FINBIN, the Farm Financial Database, was presented the 2006 Award for Outstanding Agricultural Economics Extension Website by the Extension Section of the American Agricultural Economics Association.

Nominated websites, including FINBIN, were judged on: Content, Usability, and Appearance as well...
## Farm Financial Scorecard

<table>
<thead>
<tr>
<th>Asset Turnover</th>
<th>&lt;30%</th>
<th>30 - 45%</th>
<th>&gt;45%</th>
</tr>
</thead>
</table>

Sample Farms: 42.7%
## FINBIN Profitability Measures by Profit Group, Minnesota, 2006

Assets Valued at Adjusted Cost Basis

<table>
<thead>
<tr>
<th></th>
<th>Low 20%</th>
<th>Medium 20%</th>
<th>High 20%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset Turnover Rate</td>
<td>35.3 %</td>
<td>44.0 %</td>
<td>50.8 %</td>
</tr>
</tbody>
</table>

**Sample Farm: 42.7%**
Dupont Model

Rate of Return on Assets =

Operating Profit Margin \times Asset Turnover Rate
Flowchart for Assessing and Improving Farm Profitability

If both asset turnover and operating profit are at acceptable levels, then increase size.

Acceptable

Acceptable

Operating Profit Margin

Needs Improvement

Needs Improvement

Look for ways to increase the revenues generated from existing assets. Re-evaluate:
- Throughput
- Crop Mix/Product Mix
- Marketing Program
- Yields
- Resource Use
- Custom Work Enterprise

Look for non-performing/under-performing assets to cull. Re-evaluate:
- Leasing versus Owning Assets
- Custom Work versus Owning Underutilized Machinery
- Sharing Assets (Partnering)

Look at cost controls. Look for ways to decrease expenses without reducing revenues. Re-evaluate:
- Production Costs
- Rents
- Capital Spending Plans
- Purchasing Practices
- Family Needs
- Business Organization
- Financing Costs
- Employment
- Inventory Management
- Outsourcing
- Records
- Control Procedures
- Management’s Priorities
Interpreting Financial Statements and Measures

• www.cffm.umn.edu/ifsam