

# Financial Insight: Navigating Performance, Position, and the Balance Sheet

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## Overview

Financial health describes the state of a farm’s monetary affairs. Understanding how financial health impacts a farm is important for informed decision-making, optimal allocation of resources and successful financing. This idea can be split into two concepts: financial position and financial performance, each providing unique perspectives into the health of a farm business. Evaluation of a farm requires an understanding of all financial aspects by using multiple factors. These factors are the building blocks for evaluating a farm’s financial health. As such, accurate record-keeping is imperative for the longevity of a farm business.

## Financial Position

This concept refers to the financial health of a farm at a given moment in time. In accounting terms, financial position is the daily balance of assets, liabilities and equity of a farm (Wantoch and Bernhardt, 2021). Position does not include the past or future and only pertains to the present; it is a snapshot of a farm on a specific date. Furthermore, financial position refers to measures derived from the balance sheet, where the balance sheet is a snapshot of the

financial position on a given day subject to change depending on the time of the year – especially in agriculture, where planting and harvesting impact day-to-day financials.

Financial health is described in the balance sheet as all assets owned by the farm and liabilities owed to others. Proper organization and upkeep can provide an objective measure of farm business growth, liquidity, solvency and the ability to withstand risk (Richer and Shoemaker, 2018). The idea of “current” assets are assets that are cash or can be turned into cash in less than a year. Similarly, current liabilities are debts to be paid in a year or less (Farm Financial Standards Council (FFSC) 2023). In contrast, noncurrent assets have a useful life greater than a year while noncurrent liabilities are debt obligations not due for more than a year (FFSC, 2023).

Table 1 provides a brief overview of assets and liabilities included at the farm level. All four of these categories (current, non-current, assets and liabilities) are included in developing a farm’s balance sheet. More details for these categories in the balance sheet are found in Table 2.

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**Table 1.** Common Farm Current Assets and Liabilities

Current Assets	Current Liabilities	Noncurrent Assets	Noncurrent Liabilities
Cash	Operating Loans	Breeding Livestock	Deferred Taxes
Stored Grain	Accrued Interest	Machinery	Livestock Loans
Feed on-hand	Credit Card Balances	Equipment	Equipment Loans
Livestock to Sell	Account Payable (e.g., bills)	Vehicles	Land Loans
Farm Supplies	Taxes	Real Estate	Building Loans
Prepaid Expenses (e.g., fertilizer)	Debt Principal Payments Due Within 12 months	Buildings	

## Financial Performance

Financial performance is the measure of financial health across time (e.g., quarters, months or years); it is also the result of production practices over time (Wantoch and Bernhardt, 2021). Financial performance may include external factors (e.g., drought, volatile commodity prices and global disruptions) and focuses on a farm’s financial decisions to handle these external factors. Additionally, it describes cash flows of a farm and how well the entity has met its debt obligations (FFSC, 2023).

Performance is an important tool to help a farm manager to understand the outcomes of financial decisions throughout his or her farm business. Agricultural lenders often use financial performance in evaluating past decisions to assess survivability and debt capacity (FFSC, 2011). In contrast to financial position, it uses a combination of the balance sheet, income statement and statement of cash flows to evaluate a farm (Bir et al., 2022). Financial performance influences a farm’s financial position since performance pertains to financial and operational decisions over time that ultimately impact a farm’s position at a specific time. How to properly measure and evaluate each concept will be discussed in a later fact sheet.

## What Can a Producer Do Right Now?

For a producer to successfully evaluate a farm’s financial health, he or she must begin with accurate financial records. Those records

must be maintained by staying up to date with detailed transaction reports.

Having a system in place to accurately record this information is important to determine financial position and financial performance. Historically, farm financial records were not standardized, thus creating difficulties for financial analysts and lenders in accurately evaluating farms (FFSC, 2011). The Farm Financial Standards Council (FFSC) was established in response to these concerns and today provides financial guidelines for producers to follow when maintaining their financial records (FFSC, 2023).

If a producer wants to begin maintaining consistent financial records, a good way to start is to develop the “minimum set of financial statements” as set forth by the FFSC that include 1) a balance sheet, 2) a income statement, 3) a statement of cash flows and 4) a statement of owner equity (FFSC, 2011). These statements are universally agreed upon by the FFSC and are in line with principles laid out by the Financial Accounting Standards Board (FASB) (FFSC, 2011). An example balance sheet (Table 2) is given after this section to provide producers with a starting point for developing financial records. It’s worth noting that these statements are only as good as how well they are maintained; if records are not accurately kept then evaluation of the farm could be misguided.

**Table 2.** Example Farm Balance Sheet

**FARM BALANCE SHEET**

As of \_\_\_\_\_, \_\_\_\_\_  
Date Year

List only the assets and liabilities associated or supported by your farming business.

**FARM ASSETS**

**FARM LIABILITIES AND EQUITY**

<b>Current Assets:</b>	<b>Market Value</b>	<b>Cost Value</b>
1. Cash & Checking		
2. Accounts Receivable		
3. Prepaid Expenses		
4. Cash Investment in Growing Crops		
5. Inventory: Marketable Livestock		
6.        Raised Crops and Feed		
7.        Purchased Feed		
8.        Supplies		
9. Other Current Assets		
<b>10. Total Current Farm Assets</b> (Sum Lines 1 thru 9)		
<b>Non-Current Assets:</b>		
11. Breeding Livestock: Purchased		
12.        Raised		
13. Machinery and Equipment		
14. Vehicles		
15. Investment in Capital Leases		
16. Contracts and Notes Receivable		
17. Investment in Cooperatives		
18. Real Estate		
19. Buildings and Improvements		
20. Other Non-Current Assets		
<b>21. Total Non-Current Farm Assets</b> (Sum Lines 11 thru 20)		
<b>22. Total Farm Assets (Line 10 + Line 21)</b>		

<b>Current Liabilities:</b>	<b>Market Value</b>	<b>Cost Value</b>
23. Accounts and Notes Payable		
24. Line of Credit and Operating Notes		
25. Current Portion of Term Debt		
26. Accrued Interest		
27. Taxes Payable: Ad Valorem		
28. Taxes Payable: Employee Withholding		
29. Taxes Payable: Income Taxes		
30. Taxes Payable: Deferred Taxes		
31. Other Accrued Expenses		
32. Other Current Liabilities		
<b>33. Total Current Farm Liabilities</b> (Sum Lines 23 thru 32)		Same
<b>Non-Current Liabilities:</b>		
34. Non-Current Portion of Term Debt		
35. Deferred Taxes		
36. Other Non-Current Liabilities		
<b>37. Total Non-Current Farm Liabilities</b> (Sum Lines 34 thru 36)		Same
<b>38. Total Farm Liabilities</b> (Line 33 + Line 37)		
39. Contributed Capital		
40. Retained Earnings		
<b>41. Total Valuation Equity</b>		
<b>42. Farm Equity (Line 22-Line 38)</b>		
<b>43. Total Farm Liabilities and Equity</b> (Line 38 + Line 42)		

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