Financial Management
Tips and Training

Financial Management
For a farm, financial management refers to evaluating and monitoring the financial position and performance of a single enterprise or the overall farm business. Topics involved in financial management include keeping financial records, analyzing investments, preparing budgets and determining how to finance the farm business.

Why Financial Management Is Key
When farmers improve their financial management skills, they open the opportunity to enhance their farms' overall financial performance and profitability. By operating better financially, they equip their farms for long-term viability.

Steps To Improving Financial Management
You can upskill your financial management competencies by working through steps such as the following.

- Maintain a financial recordkeeping system to track financial aspects for specific farm enterprises and the whole farm.
- Keep financial records current and accurate. This enables you to make sound decisions as needed.
- Create an annual enterprise budget for each enterprise — crop or animal product — that is part of your operation. A budget should detail your anticipated income and costs and allow you to gauge profitability potential. Having enterprise budgets will help when applying for operating loans.
- Prepare annual income statements, cash flow statements and a balance sheet to evaluate overall farm financial performance.
- Monitor year-over-year financial statements for trends.
- Develop a set of key financial indicators that are major drivers of farm financial performance and profitability.
- Benchmark your key financial indicators against the indicators reported by other operations that share similarities with yours. The comparison allows you to evaluate whether you overperform, underperform or meet the status quo relative to peer farms.
- Evaluate carefully the financial implications of all major input or capital purchases, and avoid investment in non-productive assets.
- Avoid high levels of debt, and target a debt-to-asset ratio less than 50%.
- Structure debt appropriately to maintain the ability to cash flow.

- Form a good relationship with your lender, and prioritize open and clear communication with anyone who has financially invested in the business.
- Use leasing and other asset control strategies when appropriate.
- Examine your operating expenses, and look for ways to reduce costs that will not negatively impact revenue.

Additional Resources

To learn more about improving your financial management skills, see these resources.

- Basic Accounting: Guidance for Beginning Farmers (ATTRA)
- Farm Accounting (University of Missouri Extension)
- Farm Analysis Solution Tools (farmdoc, University of Illinois)
- Farmer's Tax Guide (U.S. Internal Revenue Service)
- Financing Your Farm: Guidance for Beginning Farmers (ATTRA)
- Measuring and Analyzing Farm Financial Performance (Purdue Extension)
- Small Farm Funding Guide (USDA National Agricultural Library)
- Strategies for Dealing with Agricultural Lenders (Purdue University)