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How is Your Information System?

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Cornhusker Economics

Cooperative Extension

Institute of Agriculture & Natural Resources
Department of Agricultural Economics
University of Nebraska – Lincoln

How is Your Information System?

Market Report	Yr Ago	4 Wks Ago	11/2/01
<u>Livestock and Products,</u>			
<u>Average Prices for Week Ending</u>			
Slaughter Steers, Ch. 204, 1100-1300 lb Omaha, cwt	\$69.83	\$66.52	\$65.46
Feeder Steers, Med. Frame, 600-650 lb Dodge City, KS, cwt	90.71	86.50	87.95
Feeder Steers, Med. Frame 600-650 lb, Nebraska Auction Wght. Avg	97.61	96.39	92.18
Carcass Price, Ch. 1-3, 550-700 lb Cent. US, Equiv. Index Value, cwt	105.78	105.59	102.89
Hogs, US 1-2, 220-230 lb Sioux Falls, SD, cwt	36.00	45.00	37.50
Feeder Pigs, US 1-2, 40-45 lb Sioux Falls, SD, hd	*	34.65	*
Vacuum Packed Pork Loins, Wholesale, 13-19 lb, 1/4" Trim, Cent. US, cwt	106.80	115.90	*
Slaughter Lambs, Ch. & Pr., 115-125 lb Sioux Falls, SD, cwt	63.50	*	43.52
Carcass Lambs, Ch. & Pr., 1-4, 55-65 lb FOB Midwest, cwt	149.00	123.74	*
<u>Crops,</u>			
<u>Cash Truck Prices for Date Shown</u>			
Wheat, No. 1, H.W. Omaha, bu	3.24	2.81	2.89
Corn, No. 2, Yellow Omaha, bu	1.94	1.83	1.78
Soybeans, No. 1, Yellow Omaha, bu	4.56	4.20	4.09
Grain Sorghum, No. 2, Yellow Kansas City, cwt	3.45	3.40	3.34
Oats, No. 2, Heavy Minneapolis, MN, bu	1.29	2.09	2.23
<u>Hay,</u>			
<u>First Day of Week Pile Prices</u>			
Alfalfa, Sm. Square, RFV 150 or better Platte Valley, ton	115.00	115.00	115.00
Alfalfa, Lg. Round, Good Northeast Nebraska, ton	72.50	77.50	77.50
Prairie, Sm. Square, Good Northeast Nebraska, ton	82.50	105.00	105.00
* No market.			

As the current year ends it is again time to assess the past year, evaluate the health of the business and begin making decisions for the next year. If there are some records you need but haven't started, the next best thing is to start now. After you satisfy the IRS and your creditors, what is the next priority in your record keeping? One place to start in identifying record keeping priorities is to list the decisions you want to support and the data needed. Another would be to list your goals and the data needed to monitor progress towards those goals. In either case the focus is upon your needs. Hopefully, the discussion below will address some of those needs.

One goal that is common to most farm families is survival of the farm business. One of the lessons of the farm crisis in the 1980s was the need to keep family expenditures under control. Actually, many of the record keeping systems virtually ignored family living. A separate checking account for non-farm income and family expenditures usually provides an easy way to keep track of non-farm transactions. Comparing non-farm income net of family living expenditures, including credit card purchases, to Schedule F Net farm profit can provide a good indication of possible problems. However, most producers will be reporting on a cash basis, which may combine current year income with sales of production from the previous year and exclude this year's crop and expenses for this year's production that were paid in the previous year. Making adjustments to reflect what happened this year is referred to as accrual accounting. It is also important to separate inheritances, gifts received and capital (savings) withdrawals from current non-farm income and disbursements if you want to determine whether net family expenditure is within current farm income.

Another reason that some family businesses failed in



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the mid-1980s is the decline in asset values which left the family with a balance sheet that could no longer support the level of outstanding debt. The balance sheet is a listing of all assets and liabilities (debts) as of a certain date. Besides being useful to financial institutions, the balance sheet can provide you a summary of what has happened during the year, if the past balance sheet is kept on file. The relationship between the balance sheet and income and expenditures is shown in the Statement of (change in) Owner Equity. Owner equity is the difference between the assets and liabilities listed on the balance sheet — sometimes referred to as net worth.

Statement of Owner Equity

	Beginning Owner Equity
+	Net Income (Business and Personal)
-	Family Withdrawals
+	Gifts, Inheritances
±	Change in Value of Assets and Liabilities
=	Ending Owner Equity

This statement can be extremely valuable if kept over the years in a trend sheet. The trend sheet can be used to see if progress is being made towards any number of goals, such as whether the family is generating enough income to support family living and accumulate savings for retirement. For a more detailed discussion of farm financial records, contact your University of Nebraska Cooperative Extension office for a copy of EC888 Farm Financial Records: Accounting Principles. This publication also includes example financial statements and a chart of accounts for keeping the records to support the preparation of the financial statements.

What about decision support? Consider, for example, that you want to determine whether a particular rented parcel is making money and decide whether you should be renting some additional land that is available. Should you drop one and add the other, or farm both? One of the questions that needs to be answered is whether you have the equipment capacity and labor to farm both. Also, you need to project the yields and prices you might expect from each farm. Certainly a yield history for each farm would be valuable. One of the fields was hailed out this year. Do you penalize that farm by assigning it a lower projected yield? Is last year's price relevant for your decision making for next year? You had to disk twice on one farm last year because it rained before you could plant. Do you want to allocate fuel, repairs and labor costs to that farm accordingly? Your tractor is already depreciated out on your records, so you don't have any

tractor depreciation expense to allocate to each field. Do you ignore depreciation expense for your tractor?

The intent of the above list of questions is to illustrate some possible considerations in designing a record system. Experience indicates trying to incorporate too much detail into a financial record keeping system can result in financial accounting that is unnecessarily burdensome and can result in misleading information. Rather than starting with your financial records, developing a budget that outlines the information needed may be a better place to start in developing a decision support system. A determination of the best way to gather each piece of information for the budget can then be made. For example, are materials costs (seed, fertilizer, chemicals) most useful from last year's financial records or budgeted based upon the quantities that will be needed and next year's prices? Is using a custom charge for machinery operations sufficient or do we need to keep track of the fuel, labor, and repairs by crop or field? One of the most useful machinery cost information systems I have seen involved separating machinery costs in the financial record keeping system and using a "custom rate" for budgeting purposes. A separate record of the machine acres or hours was used to determine the total "custom charges" for the year to make sure the "custom rates" were inline with total machine costs from the financial records. See the University of Nebraska Cooperative Extension publications EC872 Nebraska Crop Budgets and EC818 Nebraska Livestock Budgets for help in developing enterprise budgets.

If you would like to further explore using your financial records for enterprise analysis, ask your local Extension office for information about the Nebraska Farm Business Association. Joining the Association has the added advantage of providing members a comparison of their costs to other members. Remember, the sooner you start improving your record system the sooner you can benefit.

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