

By Christy Couch Lee

ADVANCED MONEY  
MANAGEMENT SERIES

- CASH FLOW PLANNING
- BALANCE SHEET
- INCOME STATEMENT
- RATIO ANALYSIS
- BENCHMARKING

SERIES  
CHECKLIST

## PART TWO

# Finding your balance

## A good balance sheet monitors business health

■ Greg Marshall has raised corn and soybeans on 1,000 acres near Serena, Ill., for almost 30 years. And for nearly the entire time, he has utilized balance sheets as a monitor for his operation's overall health.

"It gives you a measurement, and you know if you're improving or falling back," he says. "You know if you have made good money, if your net worth has grown, or if you're losing money."

A standard balance sheet provides a complete listing of assets, liabilities and ownership equity. Ideally, in a complete balance sheet, assets equal liabilities plus ownership equity — thus, "balancing."

University of Illinois ag economist Paul N. Ellinger says a few simple steps can help you prepare a document that provides a snapshot of your operation's overall health. "It allows you to look at a single point in time, to determine the financial health of your operation," he says. "It shows everything you own and everything you owe — an itemized list of your components of wealth."

### Financial compass

Oftentimes, Ellinger says, a farmer views a balance sheet as a document needed by his or her lender to continue annual operating loans from year to year. But it can be much more valuable than that.

"Really, we should all strive to improve our overall wealth position," he says. "And if you don't know where you stand, you don't know what your standards are, or if you're improving. It can also help you make decisions on future land acquisitions or other business opportunities."

Marshall agrees. "If you don't use your balance sheet effectively, it could cause some hardships on your operation," he says. "You

won't know if depreciation is eating you alive, if you have no cash, or if everything is tied up in machinery. A balance sheet can also help manage certain situations like expansions or land purchases. You have all of the information in front of you, and you can extract a lot of information from it."

Just as a person should receive annual health checkups to ensure physical health, Ellinger says, producers should look to balance sheets as a chance to evaluate the health of a business.

"If you don't monitor personal health aspects such as blood pressure, they can sneak up on you and become a problem," he says. "A balance sheet can help you see cracks in your armor. When you prepare these financial statements, you can see potential weaknesses and not be caught off guard by surprises."

If you need help on how to prepare a balance sheet for your operation, Ellinger recommends looking to organizations within your state specializing in these services for farmers. "Organizations like the Illinois Farm Business Farm Management Association helps thousands of farms across Illinois," he says. "In addition, many



"A balance sheet can help you see cracks in your armor," says University of Illinois ag economist Paul Ellinger.

state universities offer tips and tools on how to prepare balance sheets. And, of course, lenders often help businesses new to the practice, as well."

The Farm Financial Standards Council ([ffsc.org](http://ffsc.org)) is a helpful resource when planning and preparing balance sheets, Ellinger says.

"As you get into the complexity of evaluating different methods of valuing land and estimating costs, the FFSC provides many valuable recommendations," he adds.

Marshall says the toughest part of creating a balance sheet is simply beginning. "Locating all of the information you need the first year is the toughest,"

he says. "Then, if you keep a copy of last year's sheet, it's simply filling in the blanks with information from your checking and savings accounts, investments, machinery values less depreciation, grain inventory, accounts receivable and other information.

"You gather the information and put it where it goes. It's really simple addition and subtraction."

And it's simple addition and subtraction that helps improve the health of your operation. **ff**

Lee writes from Wellington, Ill.

## Get help at Ag Finance Boot Camp

Interested in learning more about your finances? Come to the 2014 *Farm Futures* Ag Finance Boot Camp on Jan. 6 at the Hilton St. Louis at the Ballpark hotel. Professionals from the Farm Financial Standards Council will be on hand to share expertise that will help you understand key financial concepts to strengthen your farm operation. The one-day boot camp takes place at the same venue as the *Farm Futures* Business Summit, to be held the following two days, Jan. 7-8. For more information, go to [www.FarmFutures.com/bootcamp](http://www.FarmFutures.com/bootcamp).