

Is Your Farm Business Making It?

BY ROLAND P. FREUND
Farm Management Agent

In the day to day struggle to keep a business going it is often difficult to tell if any progress is being made. It is vital to take stock regularly and see if the operation was profitable or not. When year-end books are closed off, tax returns are filed and the figures are available it is a good time to check for progress.

There are many ways to measure "success" — some are useful and some can be quite misleading. It might seem that if the checkbook balance has improved that the business is going well. Certainly, if there is never enough income to meet the expenses, then there is a problem. But just because there is an improvement in the check balance it is not necessarily a sign that all is well. If borrowed money "saved the day" or if ignoring some obligations improved the check balance, then the business may not have improved. Maintaining cash flow does not necessarily equate with profit.

DID YOU HAVE TO PAY TAXES?

The amount of taxes that need to be paid can give us a guide but it is not very reliable, particularly for the cash basis farmer. However, if a business consistently pays little or no taxes it is not profitable (unless someone is doing some "constructive" accounting). It is important to look at some other measures to track what happened during the past 12 months.

Pork Board Receives 1989 Checkoff Funding Proposal

DES MOINES, IOWA — The National Pork Board has set a September 6, 1988 deadline for receiving proposals for 1989 projects and programs to be funded by the 100% Checkoff Program. The 100% Checkoff Program is expected to raise \$26 million in 1989 for use in pork promotion, research and consumer education.

The proposals, according to Virgil Rosendale, president of the National Pork Board, should address the priorities identified by 150 producers taking part in the Policy Development Groups in April. The Industry Operating Committee, composed of six producer leaders, then developed specific program areas consistent with those priorities.

Enhancing pork demand by improving consumer attitudes, increasing meatcase space and retail featuring of pork, and increasing the use of pork in restaurants and institutions are identified as top priority items by producers. Producers also cited increasing pork exports, developing new pork products and educating producers on the latest production technology as projects that should receive producer checkoff funding.

In addition, producers see the need for improving young people's attitudes towards pork and educating health professionals on the nutritional value of pork.

The proposals will be reviewed by the National Pork Board in October.

WHAT DID THE PROFIT AND LOSS (INCOME) STATEMENT SHOW?

It is necessary to adjust the cash figures as used in the tax returns for such things as changes in inventories and changes in unpaid or prepaid accounts to evaluate the operating success of the business. The figure that is produced is often not enough to cover the family living expenses. Often people say, "That's OK we live on the depreciation!"

The problem is that depreciation is the only way that this statement reflects the cost of capital investments to the operation of the business. If principle payments and cash purchases of capital items are already greater than depreciation, then that cannot be a source for family living. Unfortunately farm-debt principle payments are often much greater than depreciation because land mortgage has to be paid, but land is never depreciable. So then family living comes either from borrowed money or from what should have been paid at the feed mill.

WERE UNPAID BILLS REDUCED?

This is the "blood pressure test" because the presence of any unpaid bills is a danger signal, but if the level continues to rise from one year to the next it could be "fatal." Unpaid bills are ignored on a tax return and they may be conveniently overlooked in an analysis. But they should be watched very carefully and must be listed on a balance sheet.

HAS OWNER'S EQUITY INCREASED?

Unfortunately many people

only look at a balance sheet as something the bank requires when they look for more credit. It is probably the most important measure of business progress for a farm. Failure to prepare one annually and to compare equity from one year to the next is probably the reason why many businesses today find themselves at the end of the road.

We see farms that were purchased for less than \$30,000 in the

1940's or 50's now obligated for well over \$300,000. The operators borrowed out all the growth in equity on the property and literally sold the farm back to the bank in order to continue to farm it. This kind of thing should not happen if managers are aware of the trend in equity level. Drought and adverse prices can from time to time result in drops in equity, but these should be temporary dips in an improving equity position. Unless equity is improving faster than inflation,

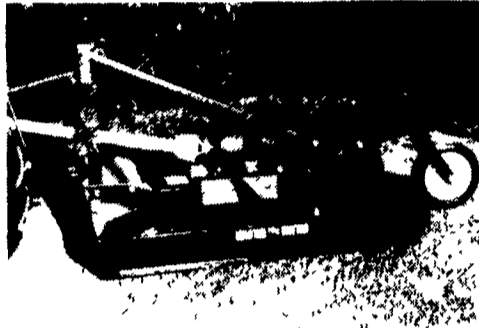
there is no real progress. IS YOU BUSINESS MAKING IT?

If you look at the measures outlined above, and take stock of your situation, you should be able to tell how things are going. If there is a temporary setback due to drought there is no cause for alarm, but if you are looking at a consistent and long term trend in the wrong direction, then there is little chance that things will reverse themselves without some very drastic action.

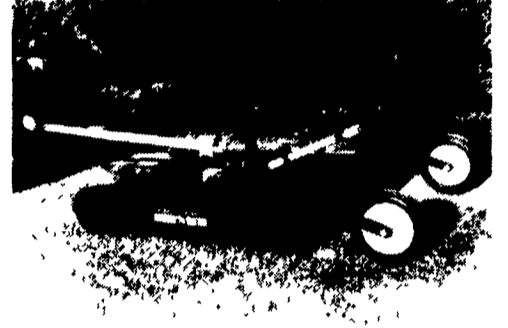
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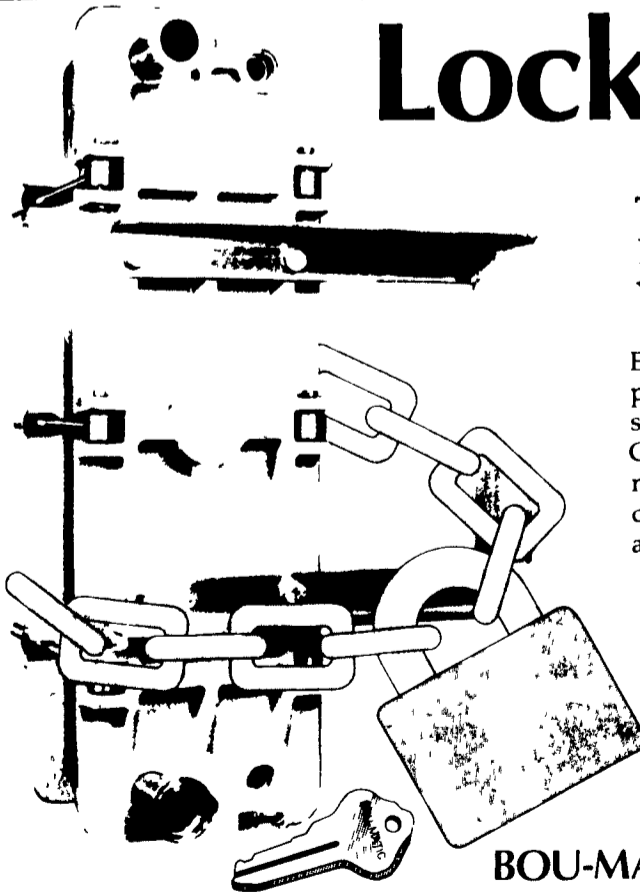
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