FINANCIAL ROADMAP

What are you looking to do? How do you know you can do it? Understanding and using your financial data is a critical part of running a successful farm business, but it is also one of the most challenging pieces for folks to do. This financial roadmap provides a way for folks to walk through what they need to do to have up to date financial information they can use to make decisions.

The first step is to place a check mark next to the goal(s) that you would like to achieve.

Step 1: Goals

☐ 1. I want to plan for a major change (succession, growth, taking on debt, capital expenditure, etc.).
☐ 2. I want to apply for a loan or grant.
☐ 3. I want to add technology or equipment to the business (robots, etc.)
☐ 4. I want to rent or purchase land.
☐ 5. I want to quit my off-farm job.
☐ 6. I want to know if my idea will work.
☐ 7. I want to be profitable.
☐ 8. I need to analyze an opportunity.
☐ 9. I need to identify areas for improvement.
☐ 10. I need to determine long-term viability and future strategic direction.
☐ 11. I want to break even.
☐ 12. I want to know what part of my business makes money.

All of these goals can be accomplished if you have the right information. This information is found by completing the Recordkeeping and Reports sections in Steps 2 and 3. In Step 4: Decision-Making, you work through tools that use the financial data you have to calculate how you can reach your goals.

The last pages have a glossary to help you understand common financial terms and links to financial resources to help you complete each step.

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Step 2: Recordkeeping

☐ 1. I know why I should be tracking how I make and spend money.

☐ 2. I know how much my household spends annually and how much of that is covered by off-farm income and benefits.

☐ 3. I have a complete inventory list with each item and its value.

☐ 4. My records are collected and organized.

☐ 5. I have reviewed and selected the recordkeeping system that works best for me.

☐ 6. My financial recordkeeping system is up to date.

Step 3: Reports

☐ 7. I have copies of my tax returns.*

☐ 8. I know how cash flowed in and out of my business over the last year.

☐ 9. I have 3-5 years of income statements.*

☐ 10. I have 3-5 years of balance sheets.*

☐ 11. I know how my net worth changed over the course of the last year.

☐ 12. I know how cash will flow in and out of my business over the next year.

**If your business is less than 3 years old and you cannot complete #7, 9, 10, consider the following statement:*

☐ I have developed estimates for the next 3 years.

Step 4: Decision-Making

☐ 13. I know which enterprise, product, or market is most profitable.

☐ 14. I have completed a historical trend and benchmark analysis.

☐ 15. I have a plan for upgrading and maintaining my land, buildings and equipment.

☐ 16. I have tested what happens if something changes (like prices or production).

☐ 17. I have completed a risk & resiliency check.

☐ 18. I have a financial plan/projection for next year for each part of my business.

☐ 19. I have developed estimates for the next 3 years.

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Step 5: Pull It All Together

Where do you need to focus or prioritize? Start at the number where you stopped checking boxes. Prioritize working on the items in numerical order since these will help you with the ones that come later. Focus on completing 1-3 items at a time. Any progress is valuable!

First 3 items:

1. ____
2. ____
3. ____

Remember, your goals can be accomplished if you have the right information. This information is found by completing the Recordkeeping and Reports sections. The Decision-Making section works through tools that use the financial data you have to calculate how you can reach your goals.

Explore more tools and learn more about Farm Financial Management at https://farms.extension.wisc.edu/article-topic/financial-strategic-management/

Take the Navigating Your Ag Business: From Stress to Success course to create your own plan to achieve your goals at https://farms.extension.wisc.edu/programs/navigating-your-ag-business/

If you have feedback on this worksheet, please contact Steph Plaster at stephanie.plaster@wisc.edu.

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Glossary of Financial Terms

Balance Sheet: A financial report summarizing the assets, liabilities, and equity of a business at a point in time. Also called a net worth statement.

Benchmark: A standard against which performance is compared.

Capital Expenditure Budget: a plan for how a farm will spend money for purchasing, maintaining, or upgrading long-term physical assets like buildings, equipment, land improvements, and technology. Not every day operating expenses. Costs of these expenses are spread out over time.

Cash Flow: The movement of cash funds into and out of a business.

Cash Flow Budget: an estimate of the movement of cash funds in and out of the business over a specific period of time.

DuPont Analysis: a financial tool that breaks down return on equity (ROE) into three components: profit margin, asset turnover, and financial leverage.

Farm Financial Scorecard: a tool that helps farmers assess their farm's financial health by comparing key performance indicators (KPIs) to industry benchmarks.

Farm Resiliency: the ability of farms to withstand and recover from various shocks and stresses, encompassing both the agricultural production system and the farmer's personal well-being.

Form 4797: a tax form to report the earnings or losses on the sale of certain kinds of business property to the Internal Revenue Service.

Historical Trends: A farm's historical financial trends are the patterns and shifts in its financial performance over a series of years. Using 3-5 years of income statements and balance sheets to find patterns in profitability, solvency, and liquidity.

Income Statement: A report that summarizes the income and expenses and computes the resulting profit or loss of a business over an accounting period. Also called a Profit/Loss Statement or P/L statement.

Proforma Model: a tool based on financial assumptions or projections for a certain period of time in the future. Can be uses for planning and answering “what if” questions.

Schedule F: a tax form to report farm income and expenses to the Internal Revenue Service.

Sensitivity Analysis: a tool used to evaluate how changes in key assumptions, such as yields, prices, or costs, affect the farm's profitability and cash flow. It answers "what if" questions, like "what if my feed costs increase by 10%" or "what if my crop yields drop by 5%," to identify the biggest financial risks and opportunities and to improve preparedness and decision-making.

Statement of Cash Flows: The statement of cash flows tracks the sources and uses of cash in your farm business and adds insight to the understanding of your financial position and performance. The statement of cash flows summarizes cash activity over a certain period, such as a calendar year.

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Financial Resources

Step 2: Recordkeeping

- ☐ 1. Developing a Farm Financial Model and The Importance of a Good Set of Records
- ☐ 2. Monthly and Annual Spending Plans
- ☐ 3. Balance Sheet – Focus on Inventory
- ☐ 4. Collecting and Organizing Your Farm Records
- ☐ 5. Selecting Your Farm Accounting System
- ☐ 6. Financial Measurement: Quantification of a farm's financial position and performance

Step 3: Reports

- ☐ 7. Interactive Schedule F, Profit or Loss from Farming and Form 4797
- ☐ 8. Understanding the Statement of Cash Flows
- ☐ 9. Preparing an Income Statement
- ☐ 10. Preparing a Balance Sheet
- ☐ 11. Understanding the Statement of Owner Equity
- ☐ 12. Cash Flow Budgeting

**If your business is less than 3 years old and you cannot complete #8-10, consider the following statement:*

- ☐ Pro Forma: Future Farm Financial Statements

Step 4: Decision-Making

- ☐ 13. Profitability: Seed for a Farm's Future and Costs of Production: Which costs of production?
- ☐ 14. DuPont System for Financial Analysis and Farm Financial Scorecard
- ☐ 15. Capital Budgeting
- ☐ 16. Financial Statement and Analysis Spreadsheet
- ☐ 17. Risk and Building Better Business Resiliency
- ☐ 18. Enterprise Budgeting
- ☐ 19. Pro Forma: Future Farm Financial Statements

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