

Measuring & Analyzing Farm Financial Performance

Introduction

One of the responsibilities a farm business manager has is evaluating and monitoring financial performance. To successfully accomplish this task, the farm business manager must decide how the evaluation will be conducted, collect data that accurately reflects actual performance of the business, and develop a set of standards or benchmarks for measuring performance. If performance is found not to be satisfactory, the farm business manager must make adjustments that will lead to improved performance.

This publication first suggests measures that farm business managers can use to evaluate financial performance. All but one of the measures are based on the universal financial measures recommended by the Farm Financial Standards Council. This publication also provides a general set of benchmarks for these measures.

The four worksheets included allow farm business managers to calculate the suggested measures using data from a beginning and ending balance sheet, and the Schedule F and Schedule 4797 tax forms. We chose these sources of raw data because they are available on most farms. The worksheets guide farm business managers through the required computations one step at a time.

Again, if the measures show that financial performance is unacceptable, farm business managers must develop strategies for improvement. So this publication suggests several possible courses of action and presents a worksheet for estimating the effect of proposed changes.