



MSU EXTENSION FARM BUSINESS ANALYSIS

[HTTP://WWW.DAIRYTEAM.MSU.EDU/DOLLARSANSENSE](http://www.dairyteam.msu.edu/dollarsandsense)

INTRODUCTION

MSU Extension farm management educators assist farm families in conducting year-end business analyses. A business analysis includes a **detailed income statement, financial measures** and **financial standards ratios**. A business analysis measures a farm's financial performance and progress from year to year. It also helps identify financial strengths and weaknesses.

PERFORMING THE ANALYSIS

The first step in running a business analysis is to start with a beginning-of-year and end-of-year **balance sheet**. Balance sheets list farm assets and liabilities as of a particular date, typically December 31. Assets include items owned by the farm, such as cash, stored crops, livestock, machinery and real estate. Liabilities are loans against the farm's assets and any unpaid bills. The balance sheet shows the **farm's equity** or net worth (assets minus liabilities).

After the balance sheets are built, the year's accounting information can be added to complete the business analysis. The entire process typically takes between **1½ and 2**

hours. Farms can use the accompanying input sheets to help gather information necessary to build balance sheets and business analyses.

Other helpful information:

- Accounting information.
- Tax return (if accounting information is incomplete).
- Year-end loan statements.
- Balance sheets filled out for lenders.

All information gathered during the session remains strictly **confidential**.

MSU Extension also produces statewide, commodity-specific business analysis reports based on averages from all business analyses. Dairy farm business analysis participants can compare their analyses to the **statewide dairy averages**. This comparison is helpful in determining where costs may be cut and improvements might be made.

Farm management educators perform business analyses using the FinPack software program developed by the University of Minnesota's Center for Farm Financial Management. Visit the center's Web site at: <http://www.cffm.umn.edu/>.

CONTACTS

To schedule an analysis of your 2006 year, contact your local MSU Extension farm management educator.

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MSU DAIRY TEAM



Growing a healthy Michigan dairy industry

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