



# Enterprising Rural Families<sup>TM</sup>

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This newsletter is an instrument of the *Enterprising Rural Families: Making It Work* program of the University of Wyoming Cooperative Extension Service. For further information concerning the Enterprising Rural Families program or on-line course contact [information@eRuralFamilies.org](mailto:information@eRuralFamilies.org) or go to <http://eRuralFamilies.org/>.

## TIP OF THE MONTH: Family Meetings

Working together in a family business can create many layers of stress and tension.

For those who want to be more effective at enhancing moral reasoning and at managing their anger long before it turns into violence, an excellent way for families to communicate, thus reducing anger and conflict, is through regular family meetings. Regular family meetings are times to promote family harmony by providing a safe time and place for making decisions, for recognizing good things happening in the family, setting up rules and distributing chores fairly, settling conflicts, and pointing out individual strengths.

To help assess whether your family is ready to try family meetings, consider the following questions: Are we as parents committed to using words and communication to solve problems as a family? Can we as a family discuss issues and differences without screaming, yelling, and fighting? Do we at least sometimes listen to and hear one another's viewpoints?

If you answered yes to most of these questions then experiment with various formats of family meetings. Otherwise, ask your friends for the names of therapists who are effective at assisting families who have situations similar to yours. Look in the yellow pages of your telephone book under counselors and make an appointment to seek the professional assistance your family needs.

*Managing Anger Through Effective Family Meetings* by Fetsch & Jacobson, Colorado State Univ.

## Getting on Track: Better Management Through Basic Financial Statements

John P. Hewlett

Today's rural families face conditions of increasing volatility and financial uncertainty. This increases the risks involved in managing any type of rural enterprise. In addition, the economic conditions are unlike any previously experienced. Although the number of individuals out of work in Wyoming is not as great as that reported for other states, the trend is not in the right direction. As banks around the world continue to fail and business owners come under increasing scrutiny and regulation, managers will likely find it more difficult to remain profitable into the future.

Keeping accurate, up-to-date financial statements, production records, and knowing the overall financial health of the business has never been more important. Operating credit is the lifeblood of many businesses. Maintaining accurate and up-to-date financial statements will be critical to expanding or retaining credit availability.



## Accurate Financial Statements

Current and accurate financial statements are the culmination of a solid system of record keeping. They are essential to managing any successful enterprise. They allow more careful planning for uncertainty, new opportunities, and for better daily and strategic operating decisions.

Managers who know their financial situation can more quickly evaluate and adapt to changing market and financial conditions. This can mean being in a better position for recognizing and dealing with financial problems as they arise.

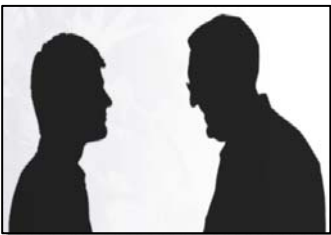
Managers who routinely develop financial statements for their business activities are better prepared to work effectively with lenders and creditors because they have the financial documentation to work from. In the current environment, this could mean the difference between being able to adjust financing plans to changing economic conditions or being left to accept whatever restrictions current creditors demand.



## Online Resources Available

The academic professionals at RightRisk.org have developed an online course called *Getting on Track: Better Management Through Basic Financial Statements* to help new and smaller rural enterprise managers improve and build upon their abilities to develop complete financial statements. Simply log onto RightRisk.org, and click “Getting on Track: Statements” in the Products menu. The course is divided into several sections covering topics on all 4 financial statements.

The first section provides an introduction to Jack and Joanie, a young couple who’s situation is used to demonstrate the value of financial statements throughout the course. Currently, Jack and Joanie have a small farm with three ewes and a large flower garden. They are expecting their second child and Joanie would like to quit her job to be a stay-at-home mom. Jack supports her interest, but they are both worried about their finances.



Joanie’s dad is a loan officer at a local bank. Jack and Joanie consult him for help in developing the financial documentation needed not only to get their business off to a good start, but also to keep it well-managed as the business grows. In essence, the course follows Jack and Joanie as they learn to use financial statements and the information they provide. Conversations between Jack, Joanie and Dad are presented to help the student better understand the practical aspects of creating and interpreting financial statements.

The second section covers cash flow statements. Cash flow statements provide information about the business’s ability to generate enough cash to meet financial obligations, identify the sources and uses of cash in the business, but does not provide an estimate of business profitability. Other information about how to organize cash flow information, as well as the opportunity to practice creating a cash flow statement are presented in the balance of the section.

### **Projected Cash Flow Statement:**

Provides a written estimate of cash inflow and outflow for a period of time. This is usually prepared annually, showing monthly income, outflows, and the resulting cash surplus or deficit for each month.

### **Balance Sheet**

A summary of all assets and liabilities of a business and the owner’s equity at a point in time.

The next section covers balance sheets. Jack and Joanie have an opportunity to purchase a neighboring 40 acres that would allow them to expand their business. A projected cash flow statement established the feasibility of expansion. However, they would need a loan to purchase the land. They learn that a balance sheet is usually required by lenders to determine credit worthiness. Jack and Joanie list all the items they own and what they currently owe for any items. Dad helps them separate the busi-

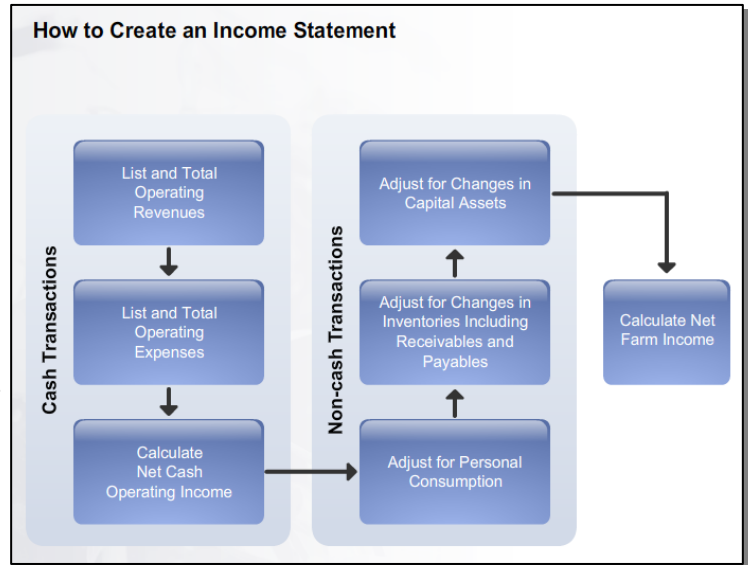
ness and personal assets and liabilities on the list. He also walks them through the concepts of current versus long term assets and liabilities to help them better understand how a lender will view the information they prepare. Another important consideration is the method used to value assets. Book value and market values are both important to business managers. However, each method provides very different information

### **Income Statement**

A summary of all revenue and expenses of a business for a specified period. The primary purpose is to compute net income for a business.

regarding business health and ability to make loan payments.

After three years of operation, Jack and Joanie are wondering if the business is making a profit or not. Dad helps them to understand that an accrual income statement is the only accurate method for evaluating business profitability. They learn that accrual accounting matches the revenues from a period of production with the actual expenses associated with generating the revenue. This may or may not match the inflows and outflows of cash. A seven-step process is presented for creating an income statement and properly estimating net income. This process includes all cash transactions, as well as all non-cash transactions.



The last financial statement covered in the course is the statement of owner equity. This financial statement helps business owners better understand changes in their business net worth due to monies earned, expenses incurred, taxes paid, inheriting or receiving gifts, giving gifts, debts forgiven, and possible changes in asset values. Jack and Joanie learn that owner equity or net worth, is a measure of the basic monetary value of the business. It is estimated by subtracting the total dollar amount of all liabilities from the total value of all assets. They discover this is an important measure of their business's ability to provide for their family. In addition, changes in the business that do not show up on other financial statements may be found in the statement of owner equity. They also learn there are challenges

| <b>Statement of Owner Equity:</b>            |  |
|--|--|
| <b><u>Challenges</u></b>                     | <b><u>Benefits</u></b>                                       |
| * Accurately measuring non-farm withdrawals. | * Measures the change in owner equity over a period of time. |
| * Putting appropriate values on assets.      | * Identifies why net worth changed during the period.        |

and benefits to developing the statement that they were previously unaware. The final section of the course outlines other types of analysis a rural business owner may be interested to use to learn even more about their business.

Additional topics covered include: whole farm analysis, enterprise analysis, investment analysis, and marketing analysis. Financial ratios and indices that form the basis of in-depth financial analysis are also briefly presented as part of this section.

The course also provides access to additional resources, including: downloadable templates for creating financial statements from "scratch," the complete Agee Hand Record System and a listing of other RightRisk courses that users can apply to their own business. Interactive exercises engage the learner to practice using financial statement templates and techniques.

For more information or to access the online course materials, visit the RightRisk web site at [RightRisk.org](http://RightRisk.org). Click on products and select *Getting on Track: Better Management Through Basic Financial Statements* from the courses available.

(Business management and record keeping in family businesses are covered in greater detail in the **Enterprising Rural Families: Making It Work™** on-line course.)

**Small Business Financial Statement**  
**Get Real, Get Organized**

The diagram illustrates a 'Small Business Financial Statement' form with several key sections highlighted by red arrows. On the left side, the arrows point to: 'List of Assets', 'Saving Funds', 'List of Liabilities', 'List of Important Addresses', and 'Net Worth'. On the right side, the arrows point to: 'Gross/Net Monthly Income', 'List of Account Numbers', 'List of Important Phone #'s', and 'Debt to Income Ratios'. The form itself is a detailed spreadsheet with multiple columns and rows, including a header section with a small image of a family.

**Complete a PFS for a True Snapshot of Your Finances**

Complete a true picture of your business finances.

