

SWOT Analysis

A tool for making better business decisions



United States Department of Agriculture
Risk Management Agency

What's a SWOT analysis?

A SWOT analysis is a tool that helps you evaluate the Strengths, Weaknesses, Opportunities, and Threats (SWOT) involved in any business enterprise — including farms and ranches.

A SWOT analysis can help you gain insights into the past and think of possible solutions to existing or potential problems — either for an existing business or new venture. For a SWOT analysis to work well, every member of your team (your family and/or employees, lawyer, accountant, and insurance agent) should be involved in the process.

After you read this overview, you will find a description of a sample farm and have a chance to go through a SWOT analysis for it. This exercise should help prepare you for doing your own SWOT analysis.



Strengths

Strengths are considered mostly internal. For example, what do you and your family, employees, and management team bring to the business? If you are planning to start a business, you or an employee or family member may have previous experience in that industry. If not, this may be viewed as a weakness. If you already know where to go to find the help you need, this would be considered a strength for this analysis.

Weaknesses

Weaknesses are also generally considered internal and are the factors you will need to address to run a successful business. For a start-up business, an example might be a lack of experience in the selected industry. Another example may be that your family members do not completely support

you in this venture. You may lack qualified employees, or perhaps your business will not support full-time employees. If you identify these as weaknesses, don't worry because existing businesses may have similar weaknesses.

Opportunities

Opportunities are considered mostly external. What opportunities are available for your business? You may be able to take advantage of low interest loan packages for start-ups or grants for feasibility studies. You may have an idea that has not been tried in your area and know there is a demand for the product you plan to produce. Be aware that people with potential businesses tend to be much more optimistic than those with existing operations.

Threats

Threats are also considered mostly external. Threats from outside of your business will directly affect you, but you may have very little control over them. If you are starting a new business, there may be local regulations that negatively impact your business. Unforeseen competition (local or foreign), dissolution of markets, and adverse weather may also have a negative effect on your new business. Many of these threats will also negatively affect an existing business. Rising interest rates may have a greater impact on existing businesses than on start-ups.

Some things to consider.

Human Resources

Hiring employees who have the skills you deem necessary is one way to combat a weakness. For example, if you need someone to drive a large truck, hiring someone with a commercial driver's license will eliminate that weakness. Or, you could learn how to drive the truck yourself — but can you spare the time away from the business?

Adding to your management team is another way to eliminate a potential weakness.

If your business is growing and you are handling the bookkeeping tasks yourself, hiring a bookkeeper will free up your time to focus on other parts of the business.

If you do, be sure to hire someone you trust or do an extensive background check — especially if they will have check-signing capabilities. Having that person bonded will also create a level of security.

When conducting your SWOT analysis, keep in mind that one item can offset another. For example, your strengths may counterbalance your weaknesses and your opportunities can offset your threats. If this does not happen, this exercise will help you to understand the issues you need to address.



Insurance

For many agricultural businesses, insurance is a way to eliminate possible weaknesses, threats, or risks. If your analysis shows that you are undercapitalized to handle a major emergency (as are most agricultural businesses), insurance coverage will help eliminate this issue. Threats from liability, fire, automobile accidents, and crop failures can all be reduced with proper insurance.

Liability insurance

Liability insurance covers anyone who is injured on your farm. This coverage is included on your farm owner's policy, but the coverage is only for the dollar amount listed on the policy. For example, if your liability limit is \$500,000 and someone sues you for \$1 million, you will only be covered for the \$500,000. The remainder of the judgment award is your responsibility. You should review your risk level with your insurance agent.



Fire insurance

Fire insurance is also included on your farm owner's policy. You may choose to insure some buildings, but not all. The level at which you will



be reimbursed is written in your policy. There are several methods of coverage, including actual cash value, replacement value, and functional replacement value.

Automobile insurance

Your automobile insurance is separate from your farm owner's insurance. Any licensed over-the-road vehicle you own should be insured. If you have multiple vehicles on the road, you may be eligible for fleet insurance, which may save you some expense. Check with your State's Department of Transportation and your insurance agent to determine the coverage that is right for you.

Crop insurance

You may insure your crops with several types of policies, such as Multiple Peril Crop Insurance (MPCI) and Crop Revenue Coverage (CRC), among others. You may insure your revenue with Adjusted Gross Revenue coverage (AGR) or Adjusted Gross Revenue-Lite coverage (AGR-Lite). To learn more about crop insurance and determine the best coverage for your operation, contact your local crop insurance provider. To locate a crop insurance agent, visit The Risk Management Agency's online locator at: www3.rma.usda.gov/apps/agents/.



Exercise: Sample SWOT Analysis

Here is an example of a small farm that needs to diversify in order to remain sustainable. This farm family needs to conduct a SWOT analysis. Read the example and conduct your own SWOT analysis for the Ryan family. When you are done, you can check your answers against the answers prepared by experienced users of the SWOT analysis tool. Those answers are on the page after your fill-in-the-blanks page. If your answers are close to the experts' answers, you are ready to do your own SWOT analysis.

Meet the Ryan Family

The Ryan family has operated a dairy farm for over 50 years. Paul Ryan, age 48, took over the dairy from his father 20 years ago. The dairy is average-sized for the area: the Ryans milk 60 cows, grow most of their own forage and grain, and raise their own heifers. The family withdraws about \$30,000 from the farm business each year for living expenses. The dairy is located in a rural area, but urban and suburban areas are close by. The nearest city has a population of 100,000.

Margaret Ryan, 42, is Paul's wife. They have three children: Jane, Hal, and Susan. Margaret used to work on the farm, but for the last 8 years she has been working full-time as a clerk-typist in the school district office. Take-home pay from this job is \$18,000, plus health, dental, and other benefits that extend to the whole family. At this point, Margaret oversees the finances with Paul, occasionally milks, and manages the household.

Jane Ryan, 21, has just received her bachelor's degree in culinary arts from the local community college. During the summers, Jane works full-time on the farm with the milking. She is considering farming as an occupation, but would like to continue her work in value-added food production.

Hal Ryan, 16, is in high school and works with his father part-time during the school year, and full-time during the summer. He is not interested in the dairy or in any type of farming and would rather attend a university and study science, engineering, or economics.

Susan Ryan, 12, is a middle school student who really enjoys the farm. She takes care of the calves after school, belongs to 4-H, and has just begun to show an interest in helping with the crops, although she is too young to drive the tractor.

Jean Miller, 64, is Margaret's mother. Since the death of her husband 5 years ago, Jean has lived with the Ryans. She shares an interest in cooking with her granddaughter, Jane.





Alternative ventures

The Ryans are considering an alternative farm enterprise because they need additional income to send their younger children to college and to save for retirement. Paul and Margaret feel strongly that they would like Jane or Susan to take over the farm.

This means that, until they retire, the farm may have to support two families (Jane currently has no plans for marriage). The Ryans are thinking about expanding the dairy to generate additional income, but Jane would rather be involved in a value-added (food product) enterprise. Paul and Margaret realize that changes in the farm may have to occur to satisfy the desires of the next generation and are willing to explore alternative farm enterprises.

The family met to determine how each person felt about developing a new enterprise on the farm, and found that Jane and her grandmother are most excited about this idea. After they did an inventory of resources, they concluded that their main, underutilized, physical resources are a small piece of land — about 5 acres currently used to grow extra hay for sale — and a concrete block shed used to store bicycles

and patio furniture. Their main, underutilized, marketing resource is the city 38 miles away. The Ryans also have good road frontage along a fairly well-traveled highway. Management and labor resources available year-round would come from Jane and Jean. High school students would be available primarily in the summer, as would Susan.

The family decided that Jane would generate enterprise ideas, and the others would offer opinions on suitability. Jane and Jean discussed possible food products that could be made using farm resources. She also spoke to some former professors and classmates, a farming neighbor she respected, and the Extension economic development educator. She reviewed back issues of culinary and country magazines and spent an entire day walking through the city, visiting stores, restaurants, the downtown area, and malls.

Out of 6 ideas that Jane came up with (fruit pies, salsa, strawberry jelly, cheese, ice cream, and yogurt), the idea that most family members liked was cheese, which Jane and Jean thought could be sold at a farm-market stand or to the many hotels and restaurants in the city.

Your Task

Help the Ryans become more confident about this idea by doing a SWOT analysis for this project. Use the first SWOT worksheet to record your thoughts and those of others. You may copy the second worksheet as often as you want to do a SWOT analysis for any enterprise you are considering. Worksheets are also available at Farm-Risk-Plans.USDA.gov.



Exercise SWOT Analysis Sheet

For the Ryan family, brainstorm about ideas related to the four areas below.
Use this sheet to determine whether the Ryans should explore an enterprise idea further.
For answers, see the inside back cover.

<p>STRENGTHS</p>	<p>WEAKNESSES</p>
<p>OPPORTUNITIES</p>	<p>THREATS</p>

Exercise SWOT Analysis Answers

<p style="text-align: center;">STRENGTHS</p> <ul style="list-style-type: none"> • Longevity — the Ryans have been farming for 50 years. • They raise their own replacements and feedstuffs. • Family's insurance is paid from an off-farm job. • They have off-farm income. • They use family for labor. • There are multiple generations living on the farm. • They are willing to explore alternatives. • They have good family communication. • They have available land and a building to use for an alternative business. 	<p style="text-align: center;">WEAKNESSES</p> <ul style="list-style-type: none"> • They still need to withdraw \$30,000 per year for family living expenses. • They are located in a rural area. • The son is not interested in continuing the farming operation. • They need to set money aside for children's college expenses. • They will need to support multiple families in the near future. • They may need to hire some outside labor for the alternative enterprise. • No one has cheesemaking experience.
<p style="text-align: center;">OPPORTUNITIES</p> <ul style="list-style-type: none"> • They are located close to a suburban area. • They have good road frontage. • The nearest city has 100,000 people. • Jane has a bachelor's degree from college. • Jane wants to return to the farming operation. • They are located on a well-traveled rural highway. 	<p style="text-align: center;">THREATS</p> <ul style="list-style-type: none"> • There may be other cheesemakers in the area with the same marketing ideas. • They have a 76-mile round trip to the city. • This does not say if they have a vehicle to transport the cheese. • Need a steady workforce from a rural area. • Government regulations may dictate many aspects of the operation.

These answers are meant to be a guide and may not be the same as your answers. Every person sees a business from his or her own perspective and may read the information differently. You can apply these principles to your business and analyze your operation.

Your SWOT Analysis Sheet

For your own possible enterprises, brainstorm about ideas related to the four areas below.
Use this sheet to determine whether you should explore an enterprise idea further.

<p>STRENGTHS</p>	<p>WEAKNESSES</p>
<p>OPPORTUNITIES</p>	<p>THREATS</p>



Design your own safety net.

Log on and fill out a risk management checklist.
 Identify your own strengths, weaknesses, opportunities,
 and threats. Explore new enterprise options.
 Do it all with a wealth of risk management information
 at your fingertips – at a Web site created just for you.



Farm-Risk-Plans.USDA.gov
Helping farmers & ranchers find success



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NCAT Financial Record - Introduction

Basic Farm Accounting and Record Keeping Templates



This project was funded by USDA's Outreach and Assistance to Socially Disadvantaged Farmers and Ranchers (OASDFR) program (Project # 2009-00705), part of the National Institute of Food and Agriculture.



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****IF YOU ARE OR PLAN TO BE CERTIFIED ORGANIC****

You will also need to keep records of the following things:

1) Purchase of non-treated, organic seeds or transplants. If you purchased conventional seed (still needs to be non-treated) you will need to show documentation that you tried finding it organically first. Contact your organic certification agency for more information.

2) Harvest yields. The inspector will need to do an audit from seed to sale, and will need to see how much of a particular crop you harvested.

3) Soil amendments or inputs. You will need to show a log of all the things you have added to the soil over the course of the season

How to use these forms:

1 The **Chart of Accounts** is the starting point for setting up your books. It's an index of all of your accounts, organized by a "Type" (Assets, Liabilities, Equity, Income & Expenses). These "types" determine how the account will behave. The numbers are a coding system professionals use to organize accounts into these specific groups, which helps as a business gets more complex. *See the Lesson 3 presentation that accompanies these materials for further explanation on the types of accounts.* You can edit and expand these categories based on your own operation, and assign code numbers according to your own organizational method. In setting up your chart of accounts, remember that you are organizing your financial information so that you can get what you want back out of it. At the end of the year, what level of detail are you going to want to know about your sources of income and how you are spending your money?

2 **Projected Farm Budget:** If you are not yet farming, you will want to create a projected farm budget before your first season starts. Since you don't have any numbers yet to work from, you will need to estimate your income and expenses based on the markets you expect to enter, and your best guess as to how much you will spend on what. This can be difficult and frustrating, but it doesn't have to be perfect! Talk to other farmers to get a sense of costs, and remember that this information is just an estimation to help you see whether your business plan is going to work or not. Keep the formulas in the total columns, and also across the bottom in the Monthly Net Profit/Loss rows, and fill out the rest with your numbers. You can also add accounts to both the income and expense categories that are more appropriate for your own farming business

3 **Cash Flow Budget:** For those already farming, use a cash flow budget to help you see what happened to your money last year, or in years past. You should be recording your income and expenses in the cash flow budget each month of the current year to understand what is happening in your bank account. The advantage of a cash flow budget is that it tracks how cash flows in and out of your accounts. You can use it predict months with high expenses and low income, and take action to ensure you have enough cash to cover your expenses.

4 Use the **Income & Expense Statement** to see the profit of your farm over a particular period of time. It could be over the month, each quarter or over the year. This example is for the entire year. The totals here are linked to the totals from the Cash Flow Budget, which you can see if you click on the cell. This allows you to enter your data in the Cash Flow Budget and have the I&E statement calculate your profit and loss automatically. You don't have to enter the numbers again on this form. Keep the formulas intact, but add account categories that are more appropriate for your business.

5 The **Balance Sheet** gives you the value, or net worth of your business at a particular day of the year. Most farmers only do one at the end of the year. There are two linked cells in this spreadsheet - the total in your cash account from the Cash Flow Budget at the end of the year, and the Total Net Profit After Taxes in the I&E Statement. Depending on what day you do the balance sheet, you may need to adjust the cash account to reflect the accurate amount in your bank account. Assets show how much you own, Liabilities shows how much you owe, and Equity shows the difference, which is the net worth of the business. Equity is also the amount of capital investments all partners contributed to the farm, and where you would put the profits of the farm if you wanted to reinvest them into the business.

6 & 7 **Income & Expense Records:** These last two sheets are record keeping templates for Income and Expenses. You can adapt each of these as needed. NOTE: If you are planning to have wholesale accounts, we recommend keeping a separate record of who owes you money (Accounts Receivable). This can be done simply with a Produce Out Log in the cooler. We recorded the date, the product, amount, where it was going and how much we charged. Then we marked it paid when we received a check, but until then, it was left open so we knew it was an open invoice.

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Farm Partner, The Cloverleaf at Bridgeway Farms 2012



Thank you to the partners of The Cloverleaf at Bridgeway Farms for sharing your financial information for this project

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NCAT Financial Record - Chart of Accounts

Cloverleaf Chart of Accounts	
	Assets (1000)
1000	Cash
1010	Checking Account
1020	Savings Account
1030	Accounts Receivable
5100	Tools
5110	Fencing
5120	Irrigation Equipment
	Liabilities (2000)
2000	Accounts Payable
2020	Loans Payable
	Equity (3000)
3000	Total Investments
3010	Partner 1 investment
3020	Partner 2 investment
3030	Net Profit (Earnings)
	Revenue (4000)
4000	Total Sales
4010	Sales CSA
4020	Sales Farm Stand
4030	Sales Wholesale
	Expenses (5000)
5000	Accounts Payable
5010	Sprays
5020	Fertilizers
5030	Fuel/oil
5040	Insurance
5050	Rent
5060	Repairs
5070	Seeds & plants
5080	Supplies
5090	Fees

NCAT Financial Record - Project Farm Budget

Cloverleaf Projected Farm Budget 2012													
	Jan	Feb	March	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Total
Income													
CSA				\$3,000	\$3,000			\$3,000	\$3,000				\$12,000
Farm Stand					\$250	\$1,000	\$1,000	\$1,500	\$1,000	\$500			\$5,250
Wholesale						\$1,000	\$1,000	\$1,000	\$1,000				\$4,000
Total Income	\$0	\$0	\$0	\$3,000	\$3,250	\$2,000	\$2,000	\$5,500	\$5,000	\$500	\$0	\$0	\$21,250
Operating Expenses													
Sprays	\$250	\$50											\$300
Fertilizers					\$500			\$500					\$1,000
Fuel/oil	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$600
Insurance					\$825								\$825
Rent	\$2,500												\$2,500
Repairs						\$250			\$250				\$500
Seeds & plants	\$600	\$400											\$1,000
Supplies	\$500	\$500											\$1,000
Fees											\$200		\$200
<i>Total Operating</i>													\$7,925
Capital Expenses													
Tools	\$300	\$250	\$150										\$700
Fencing		\$1,000											\$1,000
Irrigation Equip	\$500	\$500	\$500										\$1,500
<i>Total Capital</i>													\$3,200
Total Expenses	\$4,400	\$2,500	\$550	\$50	\$1,375	\$300	\$50	\$550	\$300	\$50	\$250	\$50	\$11,125
Monthly Net Profit/Loss	(\$4,400)	(\$2,500)	(\$550)	\$2,950	\$1,875	\$1,700	\$1,950	\$4,950	\$4,700	\$450	(\$250)	(\$50)	\$10,125

NCAT Financial Record - Cash Budget

Cloverleaf Cash Flow Budget 2012													
	Jan	Feb	March	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Total
Cash In													
Starting Cash	\$8,000												
CSA				\$5,600	\$2,400			\$2,600	\$1,400				\$12,000
Farm Stand					\$450	\$950	\$1,800	\$2,600	\$650	\$300	\$150		\$6,900
Wholesale				\$400		\$280	\$950	\$920	\$850				\$3,400
Total Income	\$8,000	\$0	\$0	\$6,000	\$2,850	\$1,230	\$2,750	\$6,120	\$2,900	\$300	\$150	\$0	\$22,300
Operating Expenses													
Sprays	\$100	\$150	\$50								\$90	\$180	\$570
Fertilizers			\$350	\$600				\$800					\$1,750
Fuel/oil			\$50	\$55	\$75	\$75	\$85	\$90	\$45	\$35	\$35	\$30	\$575
Insurance				\$200				\$625					\$825
Rent	\$2,500	\$150											\$2,650
Repairs					\$100	\$80	\$125	\$25			\$65		\$395
Seeds & plants	\$225	\$350	\$600	\$550		\$350			\$350				\$2,425
Supplies		\$750	\$150	\$300	\$250				\$300				\$1,750
Fees										\$450			\$450
<i>Total Operating</i>													\$11,390
Capital Expenses													
Tools	\$300	\$250	\$150										\$700
Fencing		\$600	\$900										\$1,500
Irrigation Equip	\$600	\$1,200	\$450										\$2,250
<i>Total Capital</i>													\$3,750
Total Expenses	\$3,725	\$3,450	\$2,700	\$1,705	\$425	\$505	\$210	\$1,540	\$695	\$485	\$190	\$210	\$15,140
Monthly Net Profit/Loss	\$4,275	(\$3,450)	(\$2,700)	\$4,295	\$2,425	\$725	\$2,540	\$4,580	\$2,205	(\$185)	(\$40)	(\$210)	\$7,160
Total Cash Balance	\$4,275	\$825	(\$1,875)	\$2,420	\$4,845	\$5,570	\$8,110	\$12,690	\$14,895	\$14,710	\$14,670	\$14,460	

NCAT Financial Record - Income & Expense

Income & Expense Statement (Jan 1 - Dec 31, 2012)

Income	
CSA	\$12,000
Farm Stand	\$6,900
Wholesale	\$3,400
Total Income	\$22,300
Expenses	
Sprays	\$570
Fertilizers	\$1,750
Fuel/oil	\$575
Insurance	\$825
Rent	\$2,650
Repairs	\$395
Seeds & plants	\$2,425
Supplies	\$1,750
Fees	\$450
<i>Depreciation expense</i>	<i>\$1,483</i>
Total Operating Expenses	\$12,873
Net Income (Profit/Loss)	\$9,427

NCAT Financial Record - Balance Sheet

Balance Sheet (Dec 31, 2012)



Funded by USDA's Outreach and Assistance to Socially Disadvantaged Farmers and Ranchers (OASDFR) program (Project # 2009-00705), part of the National Institute of Food and Agriculture.

Assets	
Checking Account	\$14,460
Savings Account	\$0
Accounts Receivable	\$540
Tools	\$700
Fencing	\$1,500
Irrigation Equipment	\$2,250
<i>Accumulated Depreciation - Total</i>	<i>-\$1,483</i>
Total Assets	\$17,967
Liabilities	
Accounts Payable	\$540
<i>Operating Loan Balance</i>	<i>\$0</i>
<i>Truck Loan Balance</i>	<i>\$0</i>
<i>Land Loan Balance</i>	<i>\$0</i>
Total Liabilities	\$540
Equity	
Partner 1 investment	\$4,000
Partner 2 investment	\$4,000
Net Profit or Loss (Retained Earnings)	\$9,427
Total Equity	\$17,427
Assets = Total Liabilities + Total Equity	\$17,967

NCAT Financial Record - Income Records

Cloverleaf Farm Income Records							
Date	Received from	Amount	Check #	Deposited	Account	Enterprise	Notes
8/22/12	Be Well Market	\$525.70	264033	31-Aug	Wholesale	fruit	8/10/2012
8/29/12	Lily's Kitchen	\$39.94	1152	31-Aug	Wholesale	fruit	53# O'Henry seconds
8/31/12	Farmstand	\$980.00	cash	15-Sep	Farmstand	veg & fruit	
9/14/12	Emilie Pratt	\$170.00	2141	10/5/2012	CSA	veg & fruit	CSA half + wild card
9/14/12	Melanie Williams	\$250.00	2663	10/5/2012	CSA	veg & fruit	CSA full
9/12/12	Jessica Green	\$250.00	121	10/5/2012	CSA	veg & fruit	CSA full
9/30/12	Farmstand	\$265.00	cash	10/5/2012	Farmstand	veg & fruit	
9/20/12	Antica Restaurant	\$60.50	4360	10/5/2012	Wholesale	fruit	9# apricots firsts
10/7/12	Farmstand	\$198.00	cash	10/12/2012	Farmstand	veg & fruit	
9/10/12	Soul Food Farms	\$58.31	5683	10/5/2012	Wholesale	fruit	8-18 farmstand



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NCAT Financial Record - Expense Log

Cloverleaf Farm Expense Records						
Date	Paid To	Amount	Check #	Account	Enterprise	Notes
1/5/12	Irrigation Supply Hardware	\$345.00	1102	Irrigation Equip	vegetables	layflat for veggies
1/5/12	Ron Matthews	\$2,500.00	1103	Rent	fruit	rent for orchard
1/8/13	High Mowing Seeds	\$150.00	debit	Seeds & plants	vegetables	online - organic
1/10/12	Johnny's Seeds	\$645.00	debit	Seeds & plants	vegetables	online
1/13/12	Orchard Supply Hardware	\$55.00	debit	Supplies	vegetables	hoes, gloves, buckets
1/14/13	Growers Ag Services	\$100.00	debit	Sprays	fruit	lime sulfur - brown rot



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Categorizing Financial Transactions Worksheet

Look at the list of items below, using the NCAT financial statements, determine what the item category is, and which statements would be impacted by the transaction. The first one is done as an example:

<i>Item</i>	Balance Sheet			Income Statement (P&L)		Cash Flow	
	<i>Asset</i>	<i>Liability</i>	<i>Equity</i>	<i>Income</i>	<i>Expense</i>		
Farm Supply Invoice for fertilizer for farm - \$200		x				x	x
Wheel Hoe - \$170							
J&S Tax Preparation Bill - \$100							
Check from Joe Schmo for spring/summer CSA subscription - \$300							
Drip Irrigation Watering Kit - \$130							
Heavy Duty Electric Fence Polywire 656 feet - \$23							
Ipad - \$1,500							
Truck depreciation - \$300							
Very Best Produce Broker payment for 10 boxes of broccoli - \$320							
JJ Greenhouse Invoice for transplants - \$240							
Very Best Produce Broker Invoice #201 for produce sold last week- \$300							
Gas receipt for \$56							
Backhoe rental receipt - \$1,000							
Check from Suzi Q for \$30 of strawberries							
Will's Garage receipt for truck repairs - \$295							
Business license receipt - \$50							
Retained earnings (Net profits of \$5,000- \$2,000 distribution to owner)							