



# Cattle Producer's Handbook

Finance Section

905

## Farm and Ranch Financial Dictionary

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Languages are a part of any business. How many corporate financiers would know what you mean by *leppy*, *muley*, and *cow-hocked*, or would know the difference between a heifer and a filly? You face some of the same problems when you must deal with financial language. Yet much of this language is just shorthand for methods that you use and understand, but not in financial terms. This dictionary will clarify some of these terms.

**Appreciation**—The increase in the value of an asset due to varying economic or inflationary conditions.

Appreciated value is not the same as earned income.

**Asset**—Something of value that you have or own.

**Audit**—A check of your books to see that they are correct.

**Balance sheet**—A list of all the items of value that you own and the debts that you owe as of a given time. This is also called net worth or financial statement.

**Budget**—A written estimate of future income and expenses covering a definite time period. (A budget is a plan, not a fence.)

**Capital**—As used in capital assets, capital investments, capital improvements; to describe money invested in anticipation of a return over a long period of time.

**Cash flow**—Actual money in and out of the business.

**Cash flow budget**—A written estimate of cash income and outgo for a definite period. This is usually prepared on an annual period, by months, showing income, outgo, and cash needed or surplus for each period. Most lending agencies require a cash-flow budget to help them plan their own cash flows.

**Contingent liability**—A liability of debt that you may incur as a result of future circumstances.

**Credit**—Borrowed money, borrowed with the understanding that it will be repaid.

**Credit rating**—A judgment of your ability to handle credit based on past performance.

**Credit risk**—The risk assumed for the possible nonpayment of credit extended.

**Creditworthiness**—The proven ability of a borrower to use and repay borrowed funds.

**Current asset**—An asset that can be quickly converted to cash.

**Debt**—An obligation owed to another.

**Enterprise analysis**—Breaking out the costs and profits of an operation. For example, determining the costs and incomes from a wheat crop would give an enterprise analysis of that crop.

**Equity**—Your equity is the part you own. For example, your equity in your farm is the value of the farm less the amount you owe. Sometimes expressed as a percent of ownership.

**Financial statement**—Usually used to mean balance sheet.

**Fixed costs**—A cost that does not vary as the level of production changes, such as real estate taxes.

**Gross income**—Total receipts. This is the total received, not the profit, and does not show expenses deducted from income.

**Inflation**—A decline in the value of money.

**Interest**—Rent you pay for the use of someone else's money.

**Leverage**—The degree by which borrowed capital exceeds net worth.

**Liability**—A debt or obligation generally expressed in terms of money. Current liabilities are those that are due in the near future, while fixed liabilities are usually debts over a long period of time such as real estate mortgages.

**Line of credit**—An agreed-upon amount that you may borrow against in the course of your operations. You