Farm & Family Connections:
Taking Control of Farm-Family Living Expenses

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Calculating how much is spent on family living expenses is never easy. But it can be especially hard when the family and the business are tied closely together, as they are on the family farm. To control your family finances, you have to know where your money comes from and where it goes. This publication can help you sharpen your managerial skills and take control of family living expenses. It also includes worksheets to help you record your own information. Be sure to make copies of the worksheets before you begin so you can use them more than once.

Farm-Family Financial Challenges

Farm families have some unique characteristics that make managing farm-family finances especially challenging. As you begin to examine your family living expenses, consider these aspects.

Farm income can be irregular and uncertain. Income often varies considerably from year to year. Income and expenses usually follow a seasonal pattern, but even that pattern varies from year to year.

Family housing expenditures, such as the mortgage and utility bills, often seem lower than for non-farm families. However, that can be deceptive because these costs are often included with farm-business expenses rather than family living expenses. For example, the mortgage payment may include financing for both the house and the land, but the amounts for each may not be listed separately.

Food expenditures may be lower than for non-farm families. Homegrown meat and produce, for example, may trim grocery bills. But, for families with many in-town activities, food eaten away from home can add greatly to food expenses.

Insurance and health care costs can be high. There may not be an employer to pick up part of the cost of employee insurance plans. The farm family may not participate in a group insurance plan. And the need for insurance is magnified because agricultural producers face a greater risk of injury, disability, or death.

There is competition between your family and your farm for the use of cash. It is often difficult to decide whether to invest farm-business profits back into the farm or to make expenditures for the home or the family.

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Household expenses are usually small relative to business expenses. Many households find it difficult to control family living expenses when they spend large amounts for agricultural supplies. Having only one bank account for both business expenses and family expenses can make this even more challenging.

Many items, such as vehicles, office equipment, machinery, and travel expenses, can be at least partially tax deductible when they are used for the farm business, even though they may also be used for family purposes. Separating your business and your family living expenses can be difficult.

Some farm families use their farm operating line of credit to finance family living expenses. The family can spend money on family living expenses before they know how much income is earned and available to spend. Some families find it difficult to limit the use of this credit until they are too far in debt. For other families, family living expenses are limited by the amount the farm can borrow.

Getting a Handle on Farm-Family Finances

Setting Goals

Goal-directed management is important in achieving personal, family, and farm-business goals. Taking time to set and prioritize goals can help you and your family make decisions about how money is spent and determine how each family member can help ensure success. This requires a frank discussion involving all family members. Involving each family member can increase sensitivity to the family's total financial picture and increase commitment to decisions. Writing down the goals and priorities also increases commitment.

Use the goals worksheet to identify and prioritize your personal, family, and farm goals. Be as specific and realistic as possible. Think about what you want, when you want to accomplish it, the amount of money you need to do it, and how much you will need to save weekly or monthly. Next, prioritize the goals within each category. Personal, family, and farm goals will inevitably compete for resources. The entire family will need to make adjustments and compromises.

Determining Income

Because many household bills occur on a monthly basis, it's helpful to begin your planning process by determining how much money you have available to spend for household expenses. What are your major sources of cash income? Do they include paychecks from non-farm employment, tips, commission, interest, dividends, gifts, annuities, social security, retirement benefits, child support, alimony, public assistance, veteran's benefits, profits from the farm or business, or loan proceeds?

Use the income worksheet to list your sources of income, average monthly amount, and the months in which you are likely to receive the income.

Personal, Family, & Farm Goals Worksheet

Goals	Priority	Date to Achieve	Money Needed	Amount to Save Monthly	Amount to Save Weekly
Personal Goals					
			$	$	$
			$	$	$
			$	$	$
			$	$	$
Family Goals					
			$	$	$
			$	$	$
			$	$	$
			$	$	$
Farm Goals					
			$	$	$
			$	$	$
			$	$	$
			$	$	$

Farm Family Income Worksheet

Sources of Income	Monthly Amount	Month(s) Income Received
Farm	$	
Paycheck	$	
Salary	$	
Tips	$	
Commission	$	
Interest	$	
Dividends	$	
Retirement Benefits	$	
Other	$	
Other	$	
Other	$	

If your income is from farm sources only, here is one method you can use to project your income. First, make your best estimate of possible selling prices and production (sales amounts). Next, subtract your best estimates of costs for feed, seed, fuel, chemicals, hired machinery and labor, livestock, repairs, taxes, and other farm expenses. This will give you an estimate of the amount available for paying debts, family living expenses, and other capital purchases. This will also help you estimate how much short-term borrowing you will need during periods of little or no income.

For a more detailed cash flow budget worksheet, contact your county office of Purdue Extension to order a copy of *Measuring & Analyzing Farm Financial Performance* (EC-712) or see the publication on the Web at <http://www.agecon.purdue.edu/ext/fbm21/Ec712entry.htm>.

Estimating Expenses

Next, you need a careful estimate of the amount required each month for family necessities. Look at your own past records to make estimates for food, clothing, personal items, health, education, home maintenance and utilities, education, transportation, and giving. You can use checkbook stubs, past billing statements, and receipts to help you make your estimates.

If you are not sure of your family spending patterns, the best way to get started is to record all expenditures made by all family members for at least a month. Keep it simple by using a sheet of notebook paper in a place that is easily accessible to all family members. This type of record keeping is invaluable in predicting future spending.

Use the expenses worksheet to record estimates of what your family spends each month.

Farm Family Expenses Worksheet

Item	Average Monthly Expense
Food, including restaurants	$
Clothing and personal items	$
Housing, including mortgage or rent and utilities	$
Health, including insurance	$
Recreation	$
Gifts and donations	$
Transportation	$
Education	$
Life and auto insurance	$
Savings	$
Other	$
Other	$
Other	$

Matching Income & Expenses

Use the matching income and expenses worksheet to summarize monthly income and expenses, and identify whether there is a surplus or deficit. Add your total monthly income, and subtract your total monthly living expenses. What do you find?

Matching Farm Family Income & Expenses Worksheet

Item	Amount
Average monthly income	$
Average monthly expenses	$
Surplus or deficit	$

If your family living expenses are greater than your income, you can either reduce expenses or increase income. Reducing expenses will require your family to decide which expenses are essential for their physical and mental health and safety, and which expenses are nice but not essential. In some cases, your family may even have to place priorities on necessities, rating the most important necessity as number one, the second as number two, and so forth.

Family living expenses can be divided into fixed or flexible expenses. Fixed expenses are those that have to be paid in specific amounts at specific times. They change very little from period to period. You can anticipate how much money you need and when you need it. Rent or mortgage payments, insurance payments, and installment debts are examples of fixed payments. These types of expenses are more difficult to adjust than some other expenses. You may have to talk to a creditor to work out an alternative payment plan to make adjustments in fixed expenses.

Flexible expenses are those expenses that change from month to month or week to week. Some examples are food, clothing, hair care, gifts, recreation, and giving. Flexible expenses are often easier to adjust, but they require careful monitoring before adjustments can be made. You may be able to reduce some flexible expenses by eliminating some items, spending less for certain items, or using your skills instead of paying for services.

An alternative to reducing expenses is to increase income. You may be able to increase income if one of your family members enters the labor force. Substituting home production of goods or services, selling or trading unused or unneeded items, or receiving assistance payments are other ways to increase your income. Assistance payments such as food stamps, reduced or free school lunches, and other public and private assistance exist to help those with temporary financial difficulties. Older children could look for ways to earn spending money and, in some cases, supplement family income with their earnings.

Even when your income is sufficient to cover your immediate living expenses, you may find that you will need to decrease your expenses or increase your income to reach your goals, increase your non-farm investments, or make additional farm investments.

Final Comments

Planning, record keeping, and income tax preparation are simpler if you record and manage your family expenses separately from your farm business expenses. Establish separate accounts for the family and the business. Then, transfer money from the business account to the household account according to your spending plan. This makes monitoring household expenses easier.

You may also find it useful to have a separate savings account designated for future living expenses. Then, you can gradually transfer the amount you need for living expenses to the household account. This may be one way to discourage unnecessary spending.

Deciding how income will be divided between farm and family expenditures before it is received can reduce conflicts and confusion. Develop a system based on a careful evaluation of expected income and expenses as well as on your goals and priorities.

This type of planning will not lead to miracles. However, it can be an invaluable tool in helping you manage your family finances. You will be able to see where you are and where you want to be in the future.

Sources & Resources

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This publication is part of the Farm Business Management for the 21st Century series. Other publications in the series provide information about the evaluation of management skills, measuring and analyzing financial performance, and applying strategic management to the farm business. For the most current information about Farm Business Management for the 21st Century publications and other supporting materials, visit our Web site at <www.agecon.purdue.edu/ext/fbm21>.

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