FARM FINANCIAL STATEMENTS

Key Questions

- What are the major financial statements used by farm businesses?
- What does each one tell us?
- How do they relate to each other?

Chapters 5 and 6
RECOMMENDED FINANCIAL STATEMENTS

- Net Worth Statement
- Statement of Cash Flows
- Net Income Statement
- Statement of Owner Equity
Net Worth Statement

Summary of:

- **Assets (what we own)**
- **Liabilities (what we owe)**

at a point in time.
Net Worth Statement
(Balance Sheet)
Name___________ Date_____
Current Assets
(sold or used < 12 mo.)

- Cash (checking and savings)
- Grain in inventory
  - Current market price
  - or, forward contract price
  - Futures contracts: gain or loss
Current Assets: examples

- 30,000 bu. of corn,
  - Market price is $3.30
  - Value is \(30,000 \times $3.30 = $99,000\)

- Sold by forward contract for $3.50
  - Value at $3.50 per bu. instead

- Sold 10,000 bu. futures contract @ $4.60
  - Today it’s trading for $3.90. Gain of $.70.
  - Gain = \($0.70 \times 10,000 \text{ bu.} = $7,000\)
Current Assets

Feeder livestock

- Current market price (adjust for weight of animals)

Example: 150 lb. pigs
Feeder pigs are worth $50 each
Market hogs are worth $130 each
Value 150-lb pigs at $90 approx.
Current Assets

- Purchased feed, supplies—at cost
- Prepaid expenses—at cost
- Growing crops--$ invested
  - Fall fertilizer applied
- Accounts receivable--$ owed us
Intermediate Assets

- Perennial crops: accumulate costs and depreciate
- Breeding livestock
  - Constant value per head
- Machinery and equipment
  - Cost (depreciated) value
  - Market value
Cost versus Market Value

- **Cost value** is the original cost of the asset, minus accumulated depreciation
  - Follows accounting rules
  - Income tax values unrealistic

- **Market value** is what the asset could be sold for today (minus selling costs)
  - Useful for evaluating loan collateral
  - Useful for comparing to other farms
Example: $80,000 sprayer

Depreciate @ 10% per year

<table>
<thead>
<tr>
<th>Year</th>
<th>Depreciation</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$8,000</td>
<td>$72,000</td>
</tr>
<tr>
<td>2</td>
<td>$7,200</td>
<td>$64,800</td>
</tr>
<tr>
<td>3</td>
<td>$6,480</td>
<td>$58,320</td>
</tr>
</tbody>
</table>

However, market value could be $70,000, or $50,000.
Long Term Assets

- Buildings
  - Cost of construction minus depreciation
  - Current market value

- Land
  - Cost: original cost (no depreciation)
  - Current market value

- Other
  - Fences, tile lines, computers, storage
CURRENT LIABILITIES
(obligations due within 12 months)

- Accounts payable (bills, taxes, etc.)
- Operating loan balances
- Principal portion of term loan payments due within 12 months
- Accrued interest on all loans
  - principal \times interest\ rate \times time
- Do not include future lease payments
Installment Loans: example

- $50,000 loan, 8% interest rate, taken out 9 months ago
- $10,000 due in 3 months, + interest

Current liabilities:
- $10,000 principal
- $3,000 accrued interest
  ($50,000 x .08 x 9/12 year)

Intermediate liability
- $40,000 principal (due > 12 months)
Intermediate and long-term liabilities

- Remainder of term loans (due more than 12 months from now)
- Deferred or contingent income taxes?
  - Tax that would be due if asset were sold
  - $ = (market value - cost value) x tax rate
  - E.g. land: ($500,000 - 300,000) x 15% = $200,000 x 15% = $30,000
Net Worth (Owner Equity)

Total Assets
minus
Total Liabilities
=
Net Worth
BALANCE SHEET questions

Include personal assets and liabilities?

Include nonfarm business assets and liabilities?
Analysis

- Change in net worth ($ and %)
- Debt-to-asset ratio
  \[= \frac{\text{total liabilities}}{\text{total assets (market)}}\]
- Current ratio
  \[= \frac{\text{current assets}}{\text{current liabilities}}\]
- Working capital
  \[= (\text{current assets} - \text{current liabilities})\]