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?

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) and **Liabilities** (what we owe) at a point in time.

Net Worth Statement

Name_________ Date____

**Assets**

- Current
- Intermediate
- Long-term (fixed)

**Liabilities**

- Current
- Intermediate
- Long-term (fixed)

**BALANCE SHEET**

*Current Assets*

*Current Assets: examples*

- 30,000 bu. of corn,
- Market price is $2.30
- Value is (30,000 x $2.30 = $69,000)
- Sold by forward contract for $2.50
- Value at $2.50 per bu. instead
- Sold 10,000 bu. futures contract @ $2.60
  - Today it’s trading for $2.44.
  - Gain = ($0.16 x 10,000 bu. = $1,600)

Current Assets

Feeder livestock
  - current market price (adjust for weight of animals)

- Purchased feed, supplies—at cost
- Prepaid expenses-$
- Growing crops—$ invested
- Accounts receivable-$

Intermediate Assets

- Breeding livestock
  - constant value per head
- Machinery and equipment
  - depreciated value
  - or, market value
- Perennial crops: accumulate costs and depreciate

Cost versus Market Value

- Cost value is the original cost of the asset minus accumulated depreciation
  - Follows accounting rules
  - May use income tax values

- Market value is what the asset could be sold for today (less selling costs)
  - Useful for evaluating loan collateral
  - Useful for comparing to other farms

LONG TERM ASSETS

- Buildings
  - cost of construction minus depreciation
  - or, market value
- Land
  - original cost (no depreciation)
  - or, current market market value
- Shares in other entities (co-ops)
  Example: $300,000 hog bldg.
15-year life, straight line depreciation of $10,000 per year
After 10 years the cost value is $300,000 - $200,000 = $100,000
However, market value could be $150,000.

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 x interest rate x time

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 ($40,000 x .08 x 9/12)
- 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: ($100,000 - 60,000) x 20% = $8,000

Net Worth (Owner Equity)
Total Assets
minus
Total Liabilities
= Net Worth

BALANCE SHEET
- 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
  \[ = \left(\text{current assets} - \text{current liabilities}\right) \]