

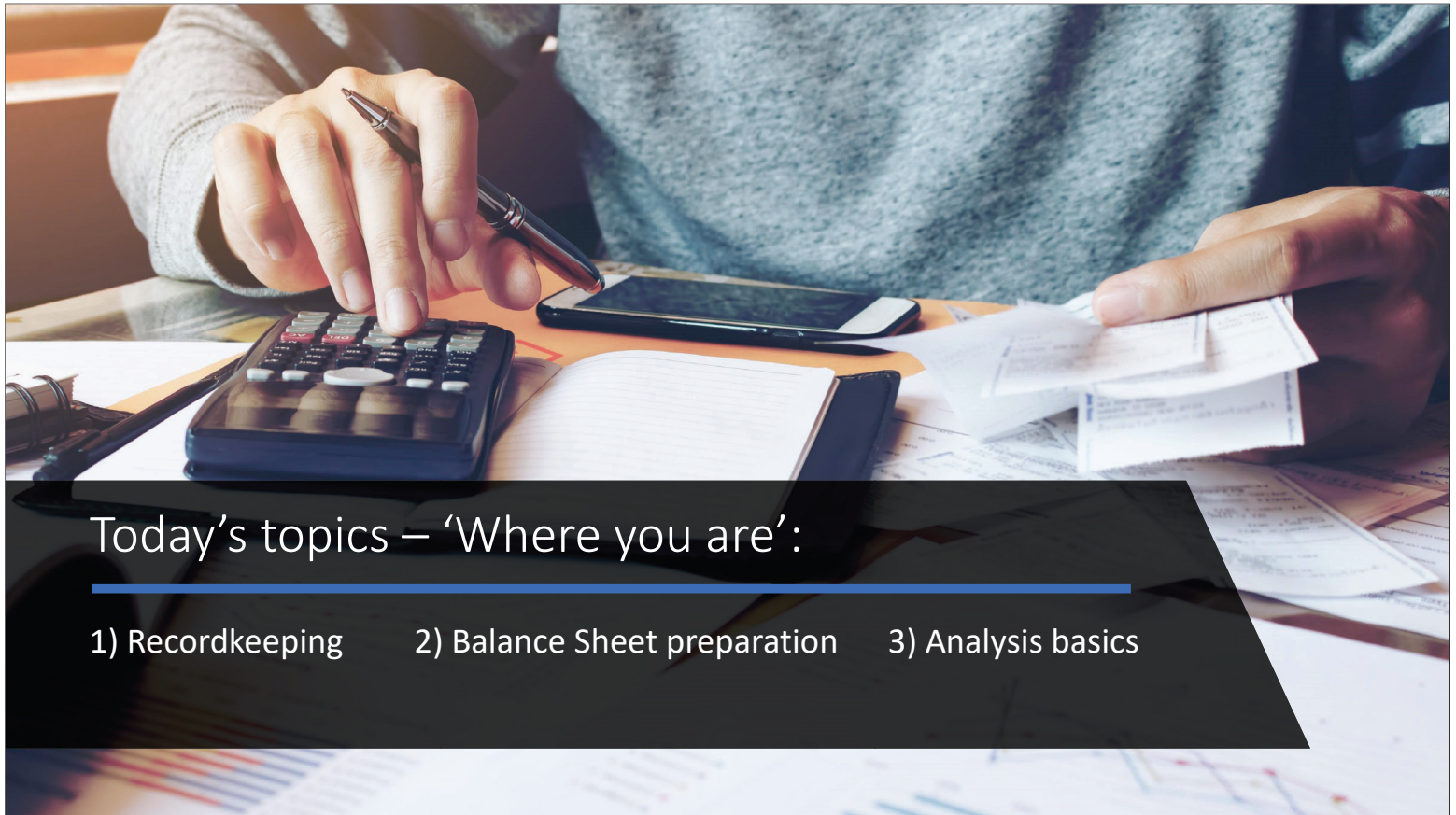
Native Ag Producer Taxes & Finance Toolkit

Session I: Balance Sheets – the starting point

This series will help you evaluate:

1. Where you are.
2. Where you've been.
3. Where you're going.





Today's topics – 'Where you are':

- 1) Recordkeeping
- 2) Balance Sheet preparation
- 3) Analysis basics



Recordkeeping

Who are your records for?



Financial Analysis & Planning

- Whole business
- Enterprise
- Use for business planning
- Use for financial statement preparation



Types of Records

- Accounting
 - Business records
 - Individual records
- Production
- Marketing
- Risk Management



What is a business expense?



What is a business expense?



How do you compile records?

- Checking account statement
- Commodity sale invoices
- Production expense receipts
- Loan Statements



Helpful Tools



<https://www.extension.iastate.edu/agdm/wholefarm/html/c6-32.html>

Evaluating Farm Accounting Software

Ag Decision Maker

File C6-32

When it comes to selecting accounting software, think about where you are at now and where you eventually want to end up. If you are just new to the computer, buying a comprehensive and complicated financial package will probably leave you frustrated and without any useful records.

Usually, the first step is for an individual to try to keep an electronic checkbook ledger and several broad categories with a limited "chart of accounts." Some people may build their own spreadsheets using Excel® to develop a recordkeeping system. The basic starting point for a pre-packaged software might be with "Quicken Starter Edition®" or "Quicken Deluxe®." Retail discounters sell these in the \$29 range and up or it can be purchased online. Quicken is available in several different versions depending upon your needs. Quicken is a first step and gets you used to data entry, check writing, and electronic funds transfer and helps set up the basic chart of accounts.

It is difficult to keep inventory and several other things that you will find in more expensive software. However, you can use these packages to prepare a net worth statement, cash flow statement, and develop a budget for the coming year.

The number of software firms has declined in recent years, in part due to the cost of updating the software to keep it income tax compliant. One of the features that you may want is the ability to download the software to your tax or tax preparer's software so that all the data doesn't have to be reloaded. Check with your tax preparer for compatibility.

There are land grant universities and others that have set up "chart of accounts" for Quicken. They also have tutorials and other teaching materials. www.agecon.okstate.edu/quicken/ www.goflagship.com/articles/index.htm#Quicken

The next step up in software would provide you with more features such as payroll, inventory, and more in-depth enterprise analysis. Some include the option of using double entry accounting, which gives you a running up-to-date net worth statement at all times.

You might look to QuickBooks® or some of the companies listed below. zimmer.csufresno.edu/~jamesco/QBooks.htm enterprisesuite.intuit.com/ www.iowafarmbusiness.org/pcmarsaccounting.html

Finally, the third tier is a comprehensive enterprise analysis with double entry accounting, payroll, and detail analysis. Oftentimes this would



Balance sheets



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Balance Sheet

- Snapshot of:
 - How business funds are invested (assets)
 - What financing methods are used (liabilities)
 - What is left (net worth/owner's equity)
- Completed at a point in time
- Foundation of financial analysis



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Balance Sheet		Balance Sheet Date: 12/31 Date Prepared: December 31	
Ag & Bus. Assets		Ag & Bus. Liabilities	
Current Assets	Value	Current Liabilities	Balance
Cash	\$ 1,562	Operating Loans	\$ 47,233
Pre-paid Expenses	118,267	Current Portion of Long-term Loans	54,147
Crop Inventory	595,067	Business Credit Card Debt	-
Livestock Held for Sale	-	Taxes & Assessments Payable	-
Other Inventory	-	Accrued Interest	4,249
Due from Processors	-	Accounts Payable	-
Other Business Accounts Receivables	-		
Business Loans Receivable	-		
Other Current Assets	32,124	Other Current Liabilities	-
Total Current Assets	\$ 747,020	Total Current Liabilities	\$ 105,629
Intermediate Assets	Market Value	Intermediate Liabilities	Balance
Equipment	\$ 709,966	Equipment Loans	\$ 121,876
Raised & Purchased Breeding Livestock	92,040	Livestock Loans	-
Business Vehicles	30,713	Business Vehicle Loans	-
Total Intermediate Assets	\$ 832,719	Total Intermediate Liabilities	\$ 121,876
Long Term Assets	Market Value	Long Term Liabilities	Balance
Land	\$ 637,000	Business Real Estate Loans	\$ 60,486
Buildings & Improvements	39,107	Business Buildings Loans	-
Other Business Real Estate	-	Other Business Loans	-
Other Non-Current Business Assets	-	Other Non-Current Liabilities	-
Total Long Term Assets	\$ 676,107	Total Non-Current Liabilities	\$ 60,486
Total Ag & Bus. Assets	\$ 2,255,846	Total Ag & Bus. Liabilities	\$ 287,991
		Total Current Liabilities	\$ 105,629
		Total Intermediate Liabilities	\$ 121,876
		Total Long Term Liabilities	\$ 60,486
		Total Ag & Bus. Liabilities	\$ 287,991
Total Business Assets	\$ 2,255,846	Total Business Liabilities	\$ 287,991
		Total Business Net Worth	\$ 1,967,855
Personal Assets		Personal Liabilities	
Cash in Personal Accounts	\$ -	Personal Accounts Payable	\$ -
Stocks & Bonds	6,610	Loans	-
Loans Receivable (personal loans)	-	Personal Credit Card Debt	-
Personal Property	-	Personal Taxes Payable	6,133
Personal Vehicles	7,543	Real Estate Loans	-
Cash Value of Life Insurance Policies	23,376	Other Personal Liabilities	-
Personal Real Estate	81,297	Total Personal Liabilities	\$ 6,133
Retirement Accounts	72,131		
Other Personal Assets	-		
Total Personal Assets	\$ 190,957	Personal Net Worth	\$ 184,824
Total Ag & Bus. Assets	\$ 2,255,846	Total Ag & Bus. Liabilities	\$ 287,991
Total Personal Assets	\$ 190,957	Total Personal Liabilities	\$ 6,133
Total Assets	\$ 2,446,803	Total Liabilities	\$ 294,124
		Total Net Worth	\$ 2,152,679

Balance Sheet Components

Assets

- Everything you own

Liabilities

- Everything you owe

$$\text{Assets} - \text{Liabilities} = \text{Net Worth}$$

Net Worth = How much of your business you keep
(What's left after liabilities are paid)

Balance Sheet

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Balance Sheet

Assets	Liabilities
Current (< 1 year)	Current
Intermediate (1–10 yrs)	Intermediate
Long Term (> 10 years)	Long Term
	Total Liabilities
	Net Worth
Total Assets	Total Liabs + Net Worth

Balance Sheet

Assets	Liabilities
Current (< 1 year)	Cash accounts Crop inventories Livestock held for sale Prepaid expenses Supplies Growing Crops Accounts receivable
Intermediate (1–10 yrs)	Intermediate
Long Term (> 10 years)	Long Term
	Total Liabilities
	Net Worth
Total Assets	Total Liabs + Net Worth

Balance Sheet

Assets	Liabilities
Current (< 1 year)	Current
Intermediate (1-10 yrs)	Machinery & Equipment Breeding Livestock
Long Term (> 10 years)	Titled Vehicles
	Perennial Crops (Fruit, Hay)
	Other Intermediate
	Net Worth
Total Assets	Total Liabs + Net Worth

Balance Sheet

Assets	Liabilities
Current (< 1 year)	Current
Intermediate (1-10 yrs)	Intermediate
Long Term (> 10 years)	Land
	Land Improvements
	Buildings
	Perennial Crops
	Other Long Term
Total Assets	Total Liabs + Net Worth

Balance Sheet Challenge

- **Asset Valuation**

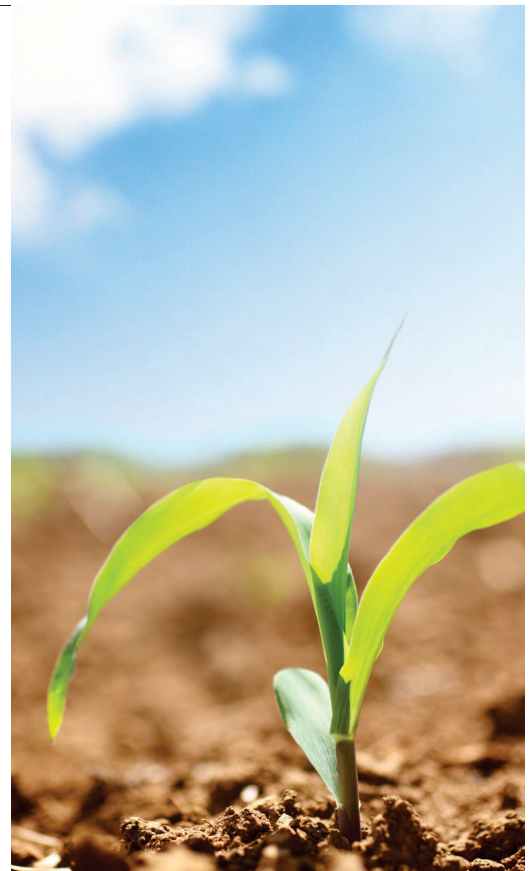
- Current Assets: Market Value
- Intermediate & Long Term?



Valuing Current Asset

- **Growing Crops**

- How do you value a crop that is still in the ground?
- Costs incurred to date
 - Seed, fertilizer, chemicals, etc.
- Use the lower of growing costs or what the market value would be



Valuing Current Assets

- **Crop Inventories**

- Local markets
- How do you value a crop that is on a forward contract?
 - Enter the agreed upon price per unit
- How do you value a crop that is on a minimum price contract?
 - Enter the market value if above min price
 - Enter the min price if market value is below



Valuing Current Assets

- **Livestock Held for Sale**

- How do you value livestock that will be sold in the next year?
- Use local market prices
 - Auctions, etc.
- If contracted, use that price
- Current weight x price = balance sheet value



Balance Sheet Challenge

- **Non-current Asset Valuation Options**

- Market Value

- Valuing assets at a conservative market value, adjusted for selling costs

- Cost or Book Value

- Valuing assets at purchase cost minus depreciation
 - Land Value Never Changes



Balance Sheet Challenge - Asset Valuation

- **Market Valuation is:**

- Valuing assets at an estimated fair market value
 - A sale price that could be expected if sold in an arms length transaction
 - Considers related selling costs



Balance Sheet - Market Value

- **Advantage**

- Best Estimate of Solvency - amount remaining if all assets were sold and all debts paid

- **Disadvantage**

- Mixes Net Worth changes from Earnings with Market Value Changes

Balance Sheet - Market Value

- **Uses**

- Evaluate Solvency
- Evaluate Debt Capacity
- Collateral Analysis
- External Comparison with other Farms
- Estate Planning

Balance Sheet Components

Assets

- Everything you own

Liabilities

- Everything you owe

$$\text{Assets} - \text{Liabilities} = \text{Net Worth}$$

Net Worth = How much of your business you keep
(What's left after liabilities are paid)

Balance Sheet

Assets	Liabilities
Current (< 1 year)	Current
Intermediate (1–10 yrs)	Intermediate
Long Term (> 10 years)	Long Term
	Total Liabilities
	Net Worth
Total Assets	Total Liabs + Net Worth

Balance Sheet

Assets	Liabilities
<div>Accounts payable</div> <div>Accrued interest</div> <div>Accrued expenses</div> <div>Operating loans</div> <div>Principal due on term debt</div>	Current
	Intermediate
	Long Term
	Total Liabilities
	Net Worth
Total Assets	Total Liabs + Net Worth

Balance Sheet

Assets	Liabilities
Current (< 1 year)	Current
<div>Loans with an original term of from 1 to 10 years</div>	Intermediate
	Long Term
	Total Liabilities
	Net Worth
Total Assets	Total Liabs + Net Worth

Balance Sheet

Assets	Liabilities
Current (< 1 year)	Current
Intermediate (1-10 yrs)	Intermediate
Loans with an original term of greater than 10 years	Long Term
	Total Liabilities
	Net Worth
Total Assets	Total Liabs + Net Worth

Balance Sheet

Assets	Liabilities
Current (< 1 year)	Current
Intermediate (1-10 yrs)	Intermediate
Long term (> 10 years)	Long term
	Total liabilities
	Net worth
Total assets	Total Liabs + Net worth

Balance Sheet

Assets	Liabilities
Current (< 1 year)	Current
Intermediate (1–10 yrs)	Intermediate
Long term (> 10 years)	Long term
Personal	Personal
	Total liabilities
	Net worth
Total assets	Total Liabs + Net worth

Balance Sheet

Assets	Liabilities
Current (< 1 year)	Current
Intermediate (1–10 yrs)	Intermediate
Long term (> 10 years)	Long term
Personal	Personal
	Total liabilities
	Net worth
Total assets	Total Liabs + Net worth

Balance Sheet

Assets	Liabilities
Current (< 1 year)	Current
Intermediate (1–10 yrs)	Intermediate
Long term (> 10 years)	Long term
Personal	Personal
	Total liabilities
	Net worth
Total assets	Total Liabs + Net worth

Balance Sheet

Assets	Liabilities
Current (< 1 year)	Current
Intermediate (1–10 yrs)	Intermediate
Long term (> 10 years)	Long term
Personal	Personal
	Total liabilities
	Net worth
Total assets	Total Liabs + Net worth

Gathering the Information

- Sources:
 - Walk around your farm or ranch
 - Insurance policy listing
 - Year end loan statements
 - Accounting system details
 - Previous balance sheet copy from a lender



Preparing Your Own Balance Sheet

- Options:
 - Accounting system generated
 - Financial spreadsheets or tools
 - **Spreadsheet option available:**
<https://z.umn.edu/balancesheet>
 - **FINPACK Lite software:**
<https://z.umn.edu/finpacklite>



Balance Sheet: When



Balance Sheet – When

A snapshot at a specific point in time

- Any day of the year
- Update multiple times per year
- Most importantly – at the end of the business year



Balance Sheet Analysis



Balance Sheet Analysis

- Liquidity
- Balance sheet structure
- Solvency
- Net worth change



Balance Sheet Analysis

- **Liquidity**
 - Working capital
- Balance sheet structure
- Solvency
- Net worth change



Working Capital – What is It?

Current Assets — Current Liabilities



How to Build Working Capital?

- Make money



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How to Build Working Capital?

- Make money
- Don't spend all of it



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How to Build Working Capital?

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How to Build Working Capital?

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Balance Sheet Analysis

- Liquidity
- **Balance sheet structure**
- Solvency
- Net worth change



Balance Sheet Structure

Where's the equity?

There is no correct balance sheet structure

- A balanced structure, with adequate equity in each balance sheet category, is preferred



Balance Sheet Analysis

- Liquidity
- Balance sheet structure
- **Solvency**
- Net worth change



Solvency analysis

- Financial risk position of the overall business
- Future borrowing capacity
 - Collateral values
- Net worth/Owner's equity
- Solvency ratios (pick one)
 - Debt to assets
 - Equity to assets
 - Debt to equity



Net Worth Change

- Net Worth Change
 - Measures overall progress
 - Net worth growth can only happen if:
 - Earnings exceed consumption
 - Market values are increased



Balance Sheets

The starting point – to determine ‘where you are at’.