Farm and Ranch Balance Sheets

Jessica Groskopf
jgroskopf2@unl.edu
call/text 308-632-1247

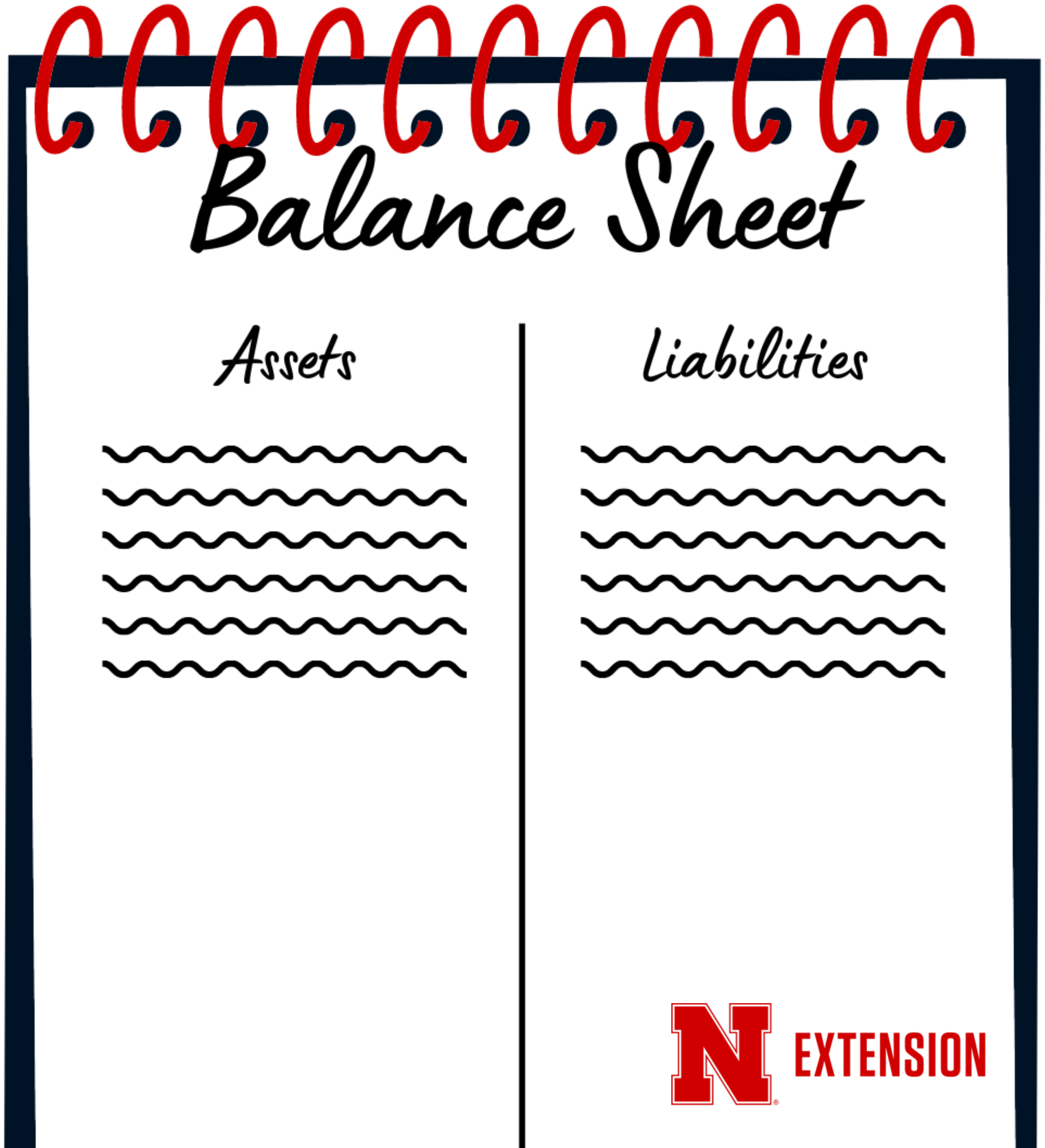
EXTENSION

Balance Sheet

EXTENSION

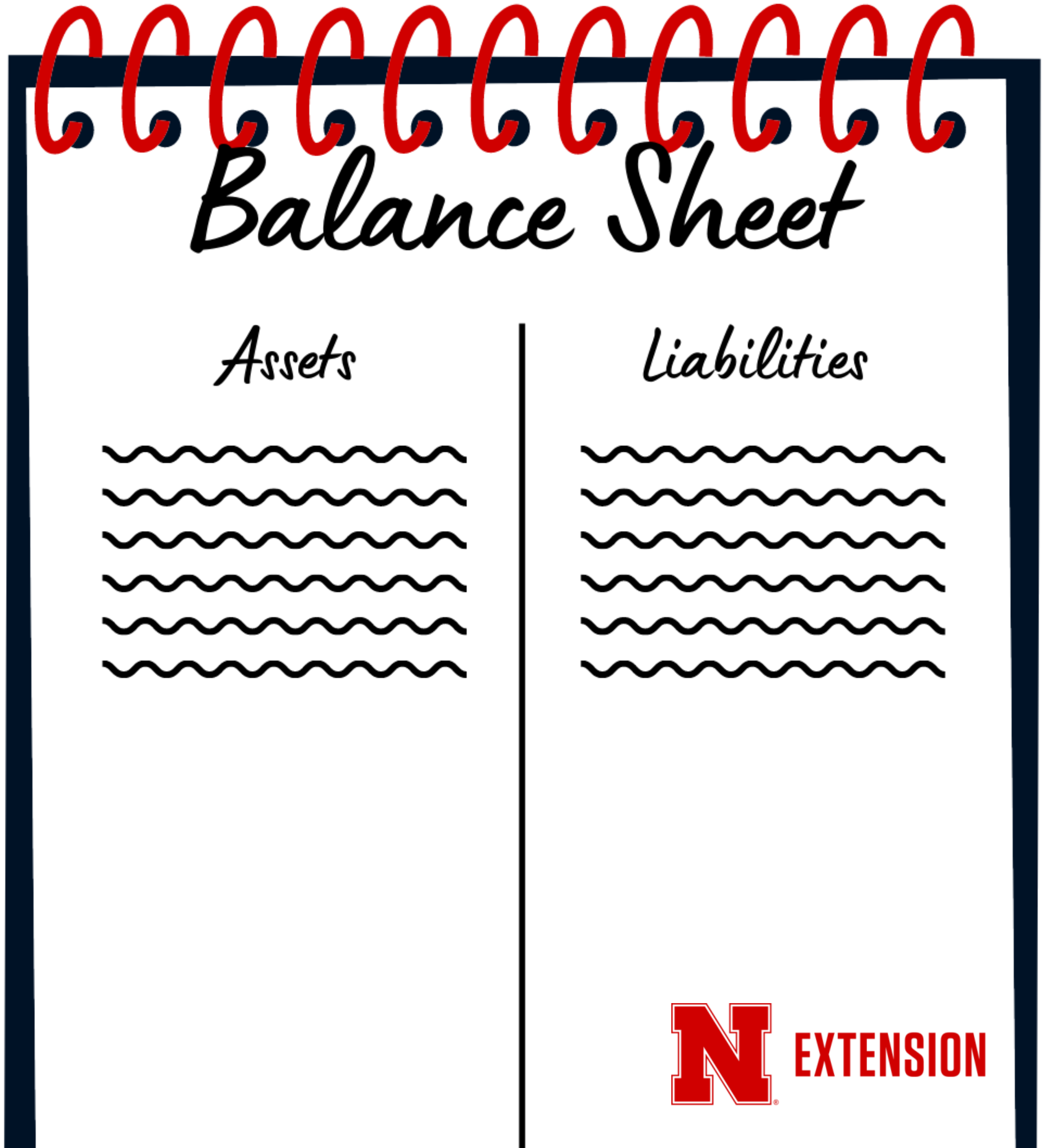
A snapshot of your business's financial position at a point in time.

Listing of everything your business owns (assets) and owes (liabilities).



Some lenders will ask for personal assets and liabilities to be listed.

Typically, this are in separate areas (schedules) on the balance sheet.



Assets

Everything the business owns.

Current Balance

- Cash
- Checking Accounts
- Accounts receivable
- Hedging accounts

Current Inventory

- Prepaid expenses & supplies on hand
- Investment in growing crops
- Crops "in bin" and market livestock

Current Inventory/Value

- Breeding livestock
- Machinery
- Titled vehicles
- Land
- Buildings/Improvements

N EXTENSION

Assets: cost vs. market

- **Put a value on it…**
  - Cost value
  - Market value

EXTENSION

Assets: cost vs. market

- **Cost value** - purchase price less *economic* depreciation

Assets: cost vs. market

- **Cost value** - purchase price less *economic* depreciation
  - Depreciation – "wear and tear" overtime that depletes the value of an asset: machinery, vehicles, buildings, breeding livestock.
  - Depreciation reported on the balance sheet is sometimes called "Book depreciation"
    - Maybe different than depreciation reported on taxes – may be "accelerated" to reduce income tax liability (Section 179).

Assets: cost vs. market

- **Cost value** - purchase price less *economic* depreciation

- Example:

Straight-line depreciation =

$$\frac{Purchase\ Price - Salvage\ Value}{Asset\ Life}$$

$$\frac{\$75{,}000 - \$15{,}000}{10} = 6{,}000/\text{per year}$$

Assets: cost vs. market

- **Put a value on it…**
  - Cost value – purchase price less _economic_ depreciation
  - Market value – what a willing buyer would pay for the asset
    - Lender will provide commodity prices ($X/bu., or $X per head)

N EXTENSION

Assets: cost vs. market

- **Put a value on it…**
  - Cost value – purchase price less *economic* depreciation
  - Market value – what a willing buyer would pay for the asset

Land (Schd M)	Acres	Cost Value	Market Value
Farm 1	235	152,750	293,750
Farm 2	160	32,000	224,000

N EXTENSION

Balance Sheet

Take care when valuing assets. Make notes when you adjust values.

EXTENSION


ASSETS
LIABILITIES
Current
EXTENSION

Liabilities

Everything the business owes.

Sometimes called: obligation or debt.

- **Debt** is an obligation to repay money that you've borrowed.
- **Examples** include credit cards, operating notes, lines of credit, accounts payable, mortgages, equipment loans, livestock loans, etc.

N EXTENSION

Why do we use debt?

1. Don't have enough cash to purchase an item outright

2. The cost of the loan is low, compared to what their money is earning in another investment.
   - For example, someone may choose a low-interest loan at 3% rather than withdrawing money from an investment account earning 8%+.

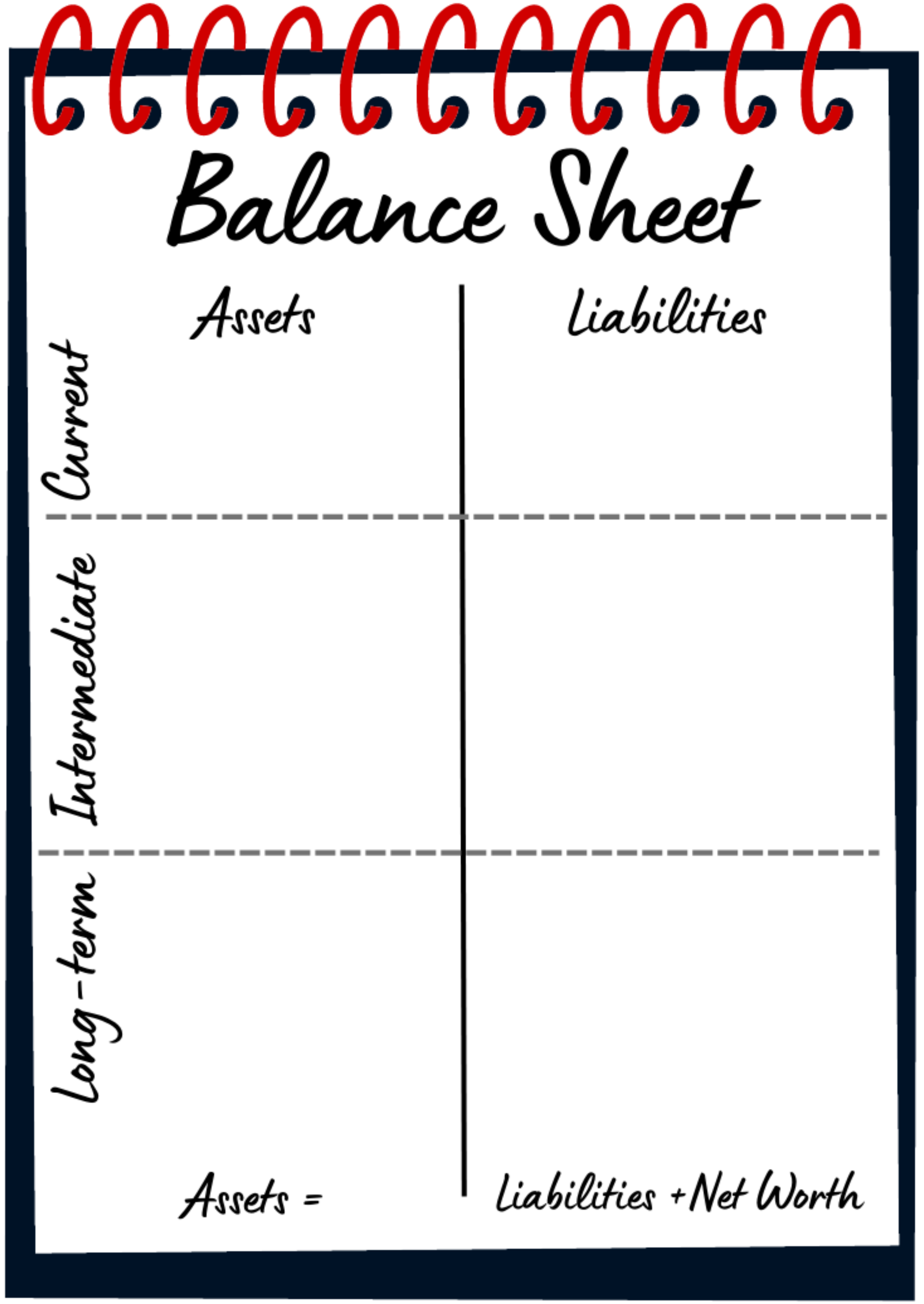
N EXTENSION

You need to know...

- **Principal Balance**
  - Principal - Money borrowed
  - Balance – How many payments have already been made? Have you made any "extra" principal payments.
- **Term**: Amount of time to repay
  - **Short** (Less than 1 Year)
  - **Intermediate** (1-10 Years)
  - **Long** (10+ Years)
- **Interest rate**: agreed-upon fee sometimes called the "APR" (Annual Percentage Rate)
  - Interest charged on the balance of the principal
  - Additional fees may apply

Organize

- Current (< 1 year)
- Intermediate (1-10 years)
- Long-term (>10 years)

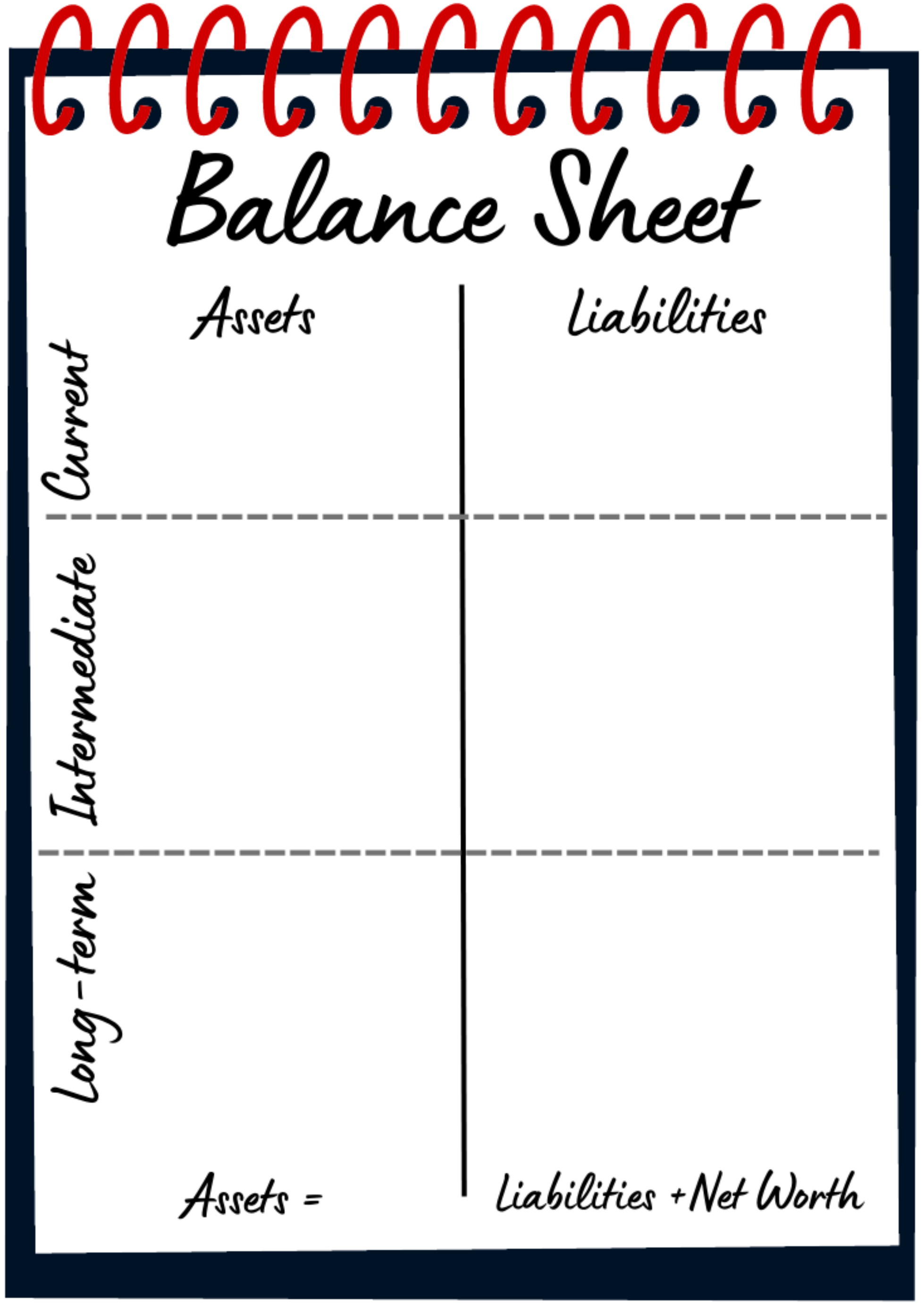


… and subtotal

Organize

- Current (< 1 year)
- Intermediate (1-10 years)
- Long-term (>10 years)

Non-Current



… and subtotal

Assets

Current

- Cash
- Checking Accounts
- Prepaid expenses & supplies on hand
- Investment in growing crops
- Accounts receivable
- Hedging accounts
- Crops “in bin” and market livestock

Intermediate

- Breeding livestock
- Machinery or Equipment
- Titled vehicles

Long-term

- Land
- Buildings/Improvements

Liabilities

Current

- Accrued interest
- Accounts Payable
- Operating loans/lines of credit
- Credit cards
- Current portions of intermediate and long-term loans

Intermediate

- Machinery or Equipment Loans
- Vehicle Loans
- Livestock Loans

Long-term

- Land Loans

EXTENSION

EXTENSION

Mortgage Example

- **House FMV:** $400,000
- **Downpayment:** $50,000

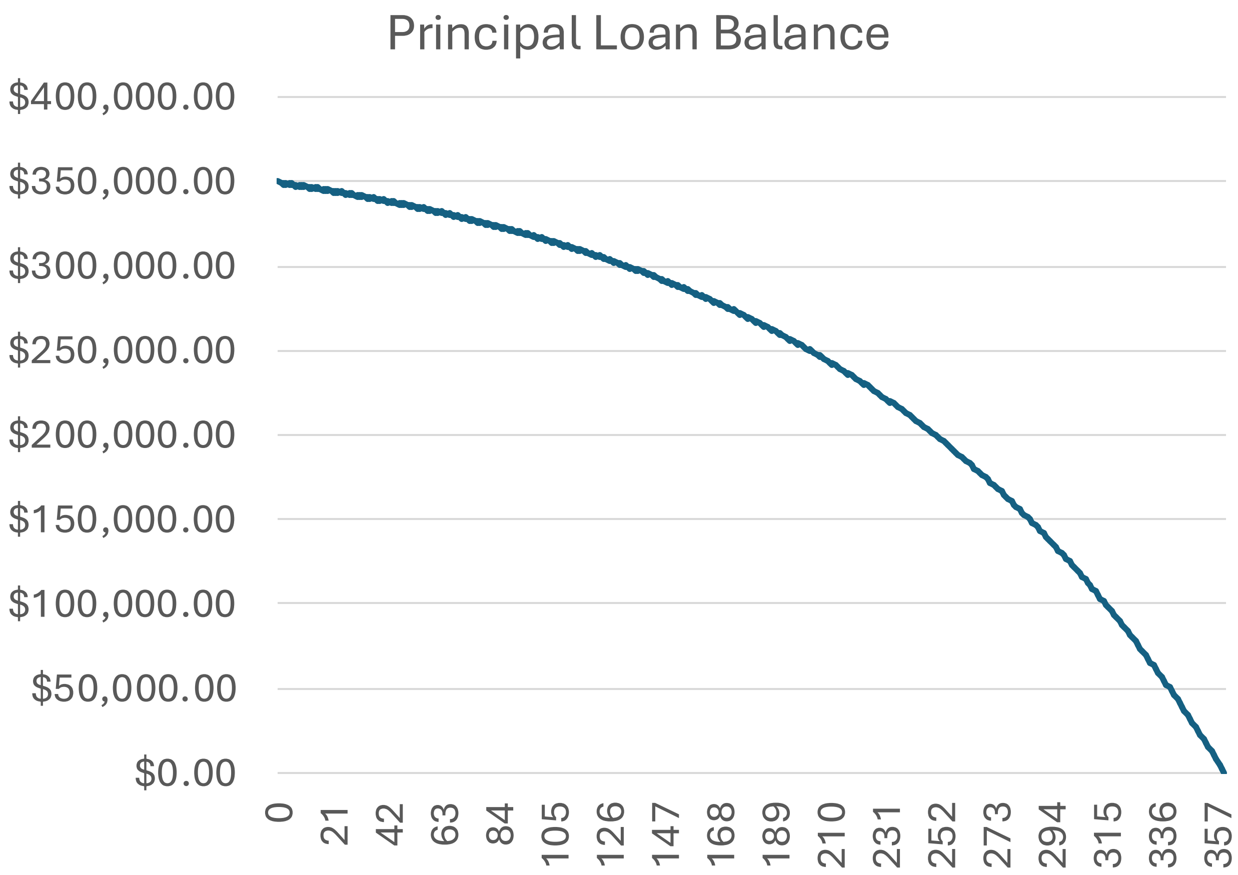
- **Principal**: $350,000
- **Term**: 30 Years, paid monthly (360 payments)
- **Interest Rate**: 8%
- **Payment**: $2,568.18/month

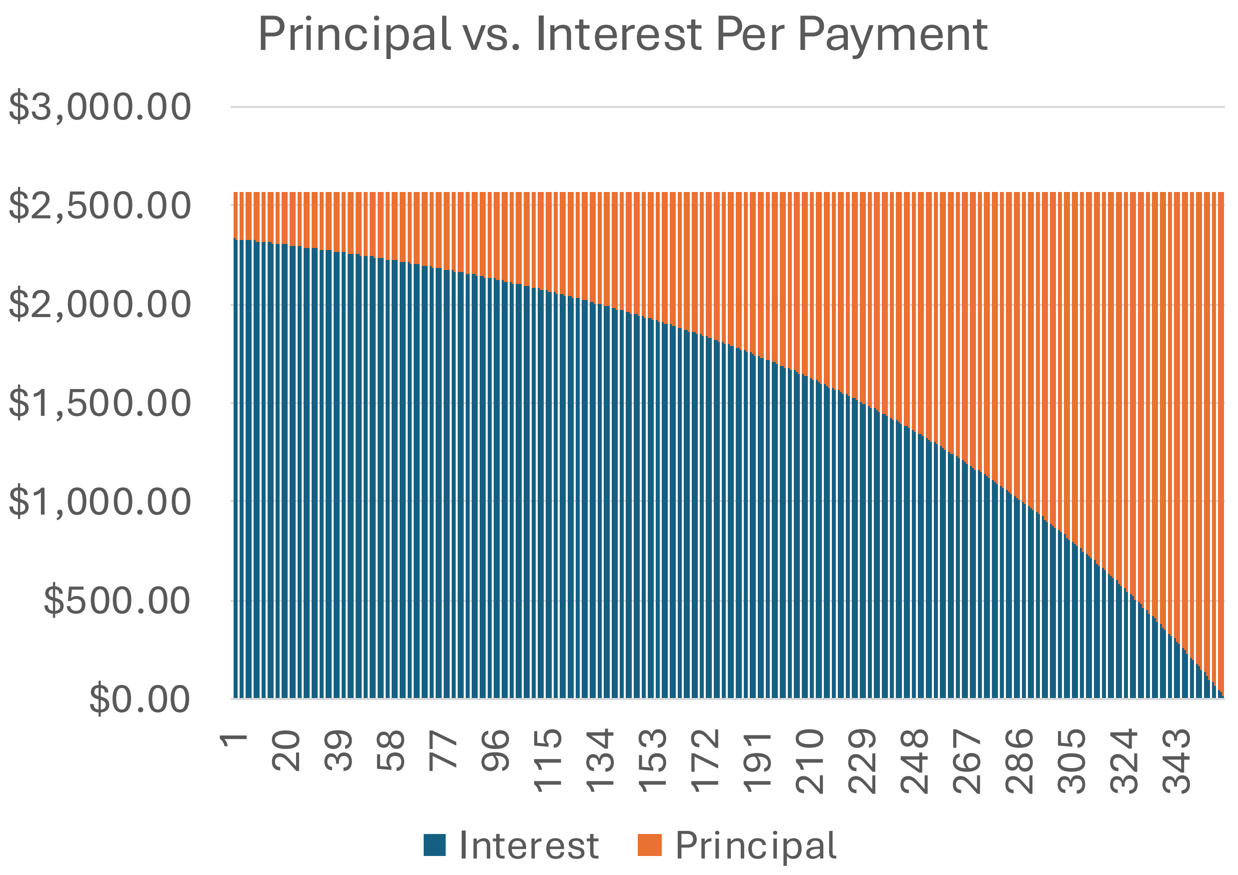
TOTAL EXPENSE PAID $924,543.36

- Principal: $350,000
- Interest: $574,543.36

EXTENSION

Mortgage Example… in charts…





Payment: $2,568.18/month

Putting it on the Balance Sheet

	Assets (OWN)	Liabilities (OWE)
Current		
Intermediate		
Long		

Payment: $2,568.18/month

Putting it on the Balance Sheet

	Assets (OWN)	Liabilities (OWE)
Current		
Intermediate		
Long	• **House** $400,000	

Payment: $2,568.18/month

Putting it on the Balance Sheet

	Assets (OWN)	Liabilities (OWE)
Current		• **House Payments** – (\$2,568.18 X 12) = \$30,818.11
Intermediate		
Long	• **House** \$400,000	• **House Principal Balance** – \$347,076.23

Payment: \$2,568.18/month

Putting it on the Balance Sheet

	Assets (OWN)	Liabilities (OWE)
Current		• **House Payments** – ($2,568.18 X 12) = $30,818.11: *Annual payments will remain consistent*
Intermediate		
Long	• **House** $400,000: *Overtime, the house value will likely ↑*	• **House Principal Balance** – $347,076.23: *Overtime, the principal balance will ↓*

Payment: $2,568.18/month

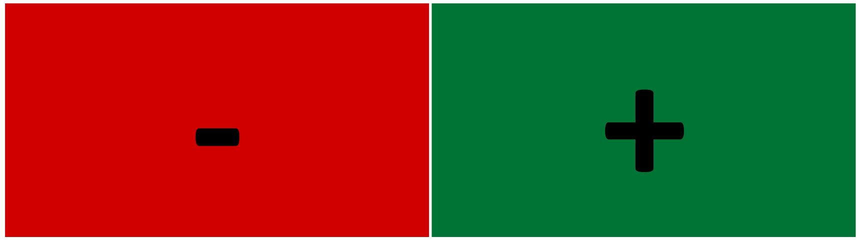
EXTENSION

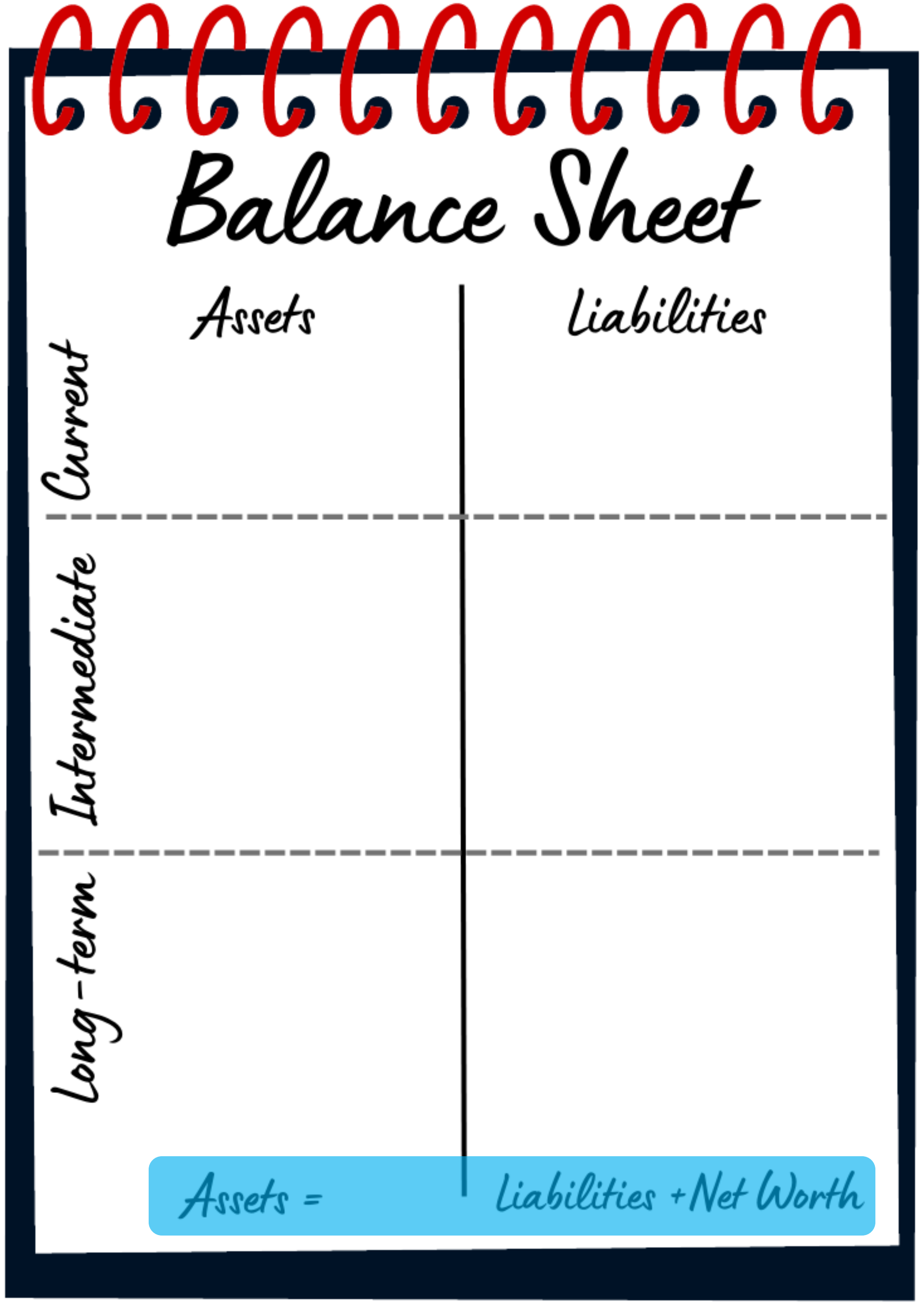
Net Worth

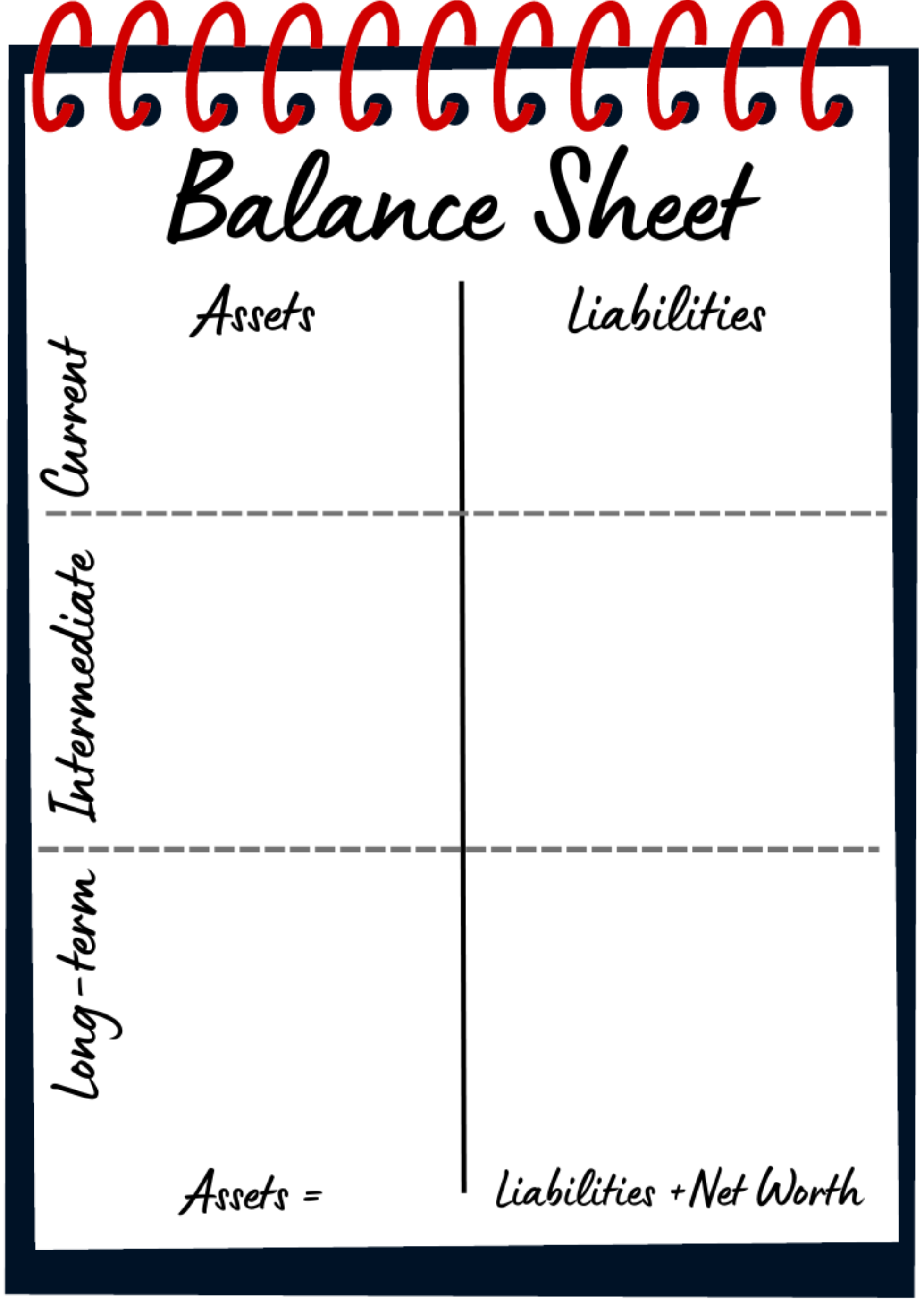
The difference between, assets and liabilities.

$$Total\ Assets \quad - \quad Total\ Liabilities$$

“Owner’s equity” in the business. Value of what the owner’s have in the company.



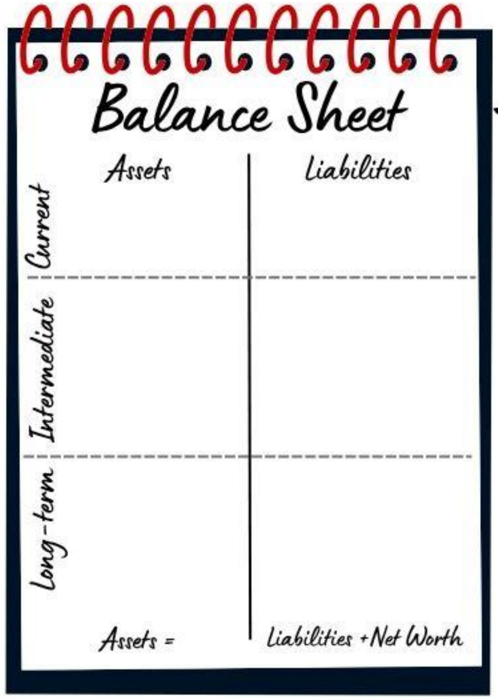



Balance Sheet
Assets
Liabilities
Current
Intermediate
Long-term
Assets =
Liabilities + Net Worth

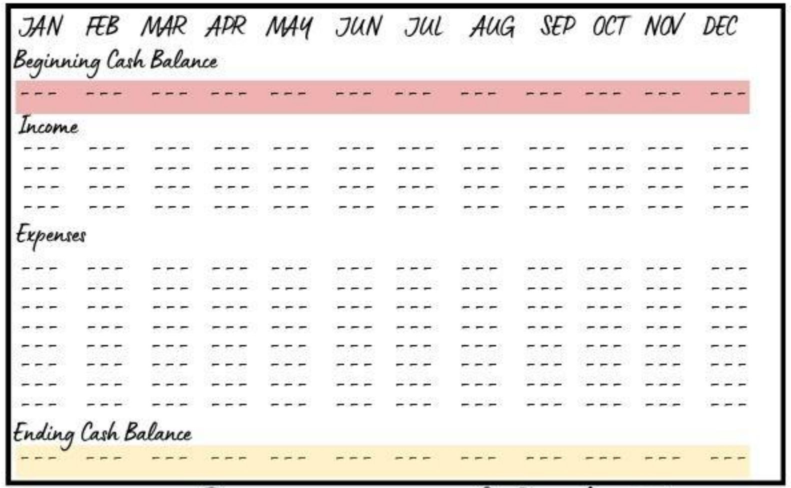
Prepare your balance sheet at the same time every year.

EXTENSION

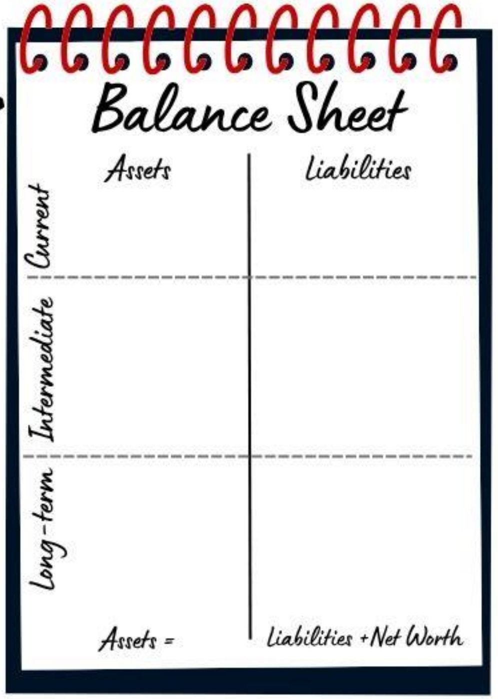
Financial Statements



Jan. 1, 2025



2025 Statement of Cash Flow



Jan. 1, 2026

2025 Income Statement

Operating Income
- Operating Expenses
-Interest Paid
+Inventory Changes

Net Farm Income from Operations

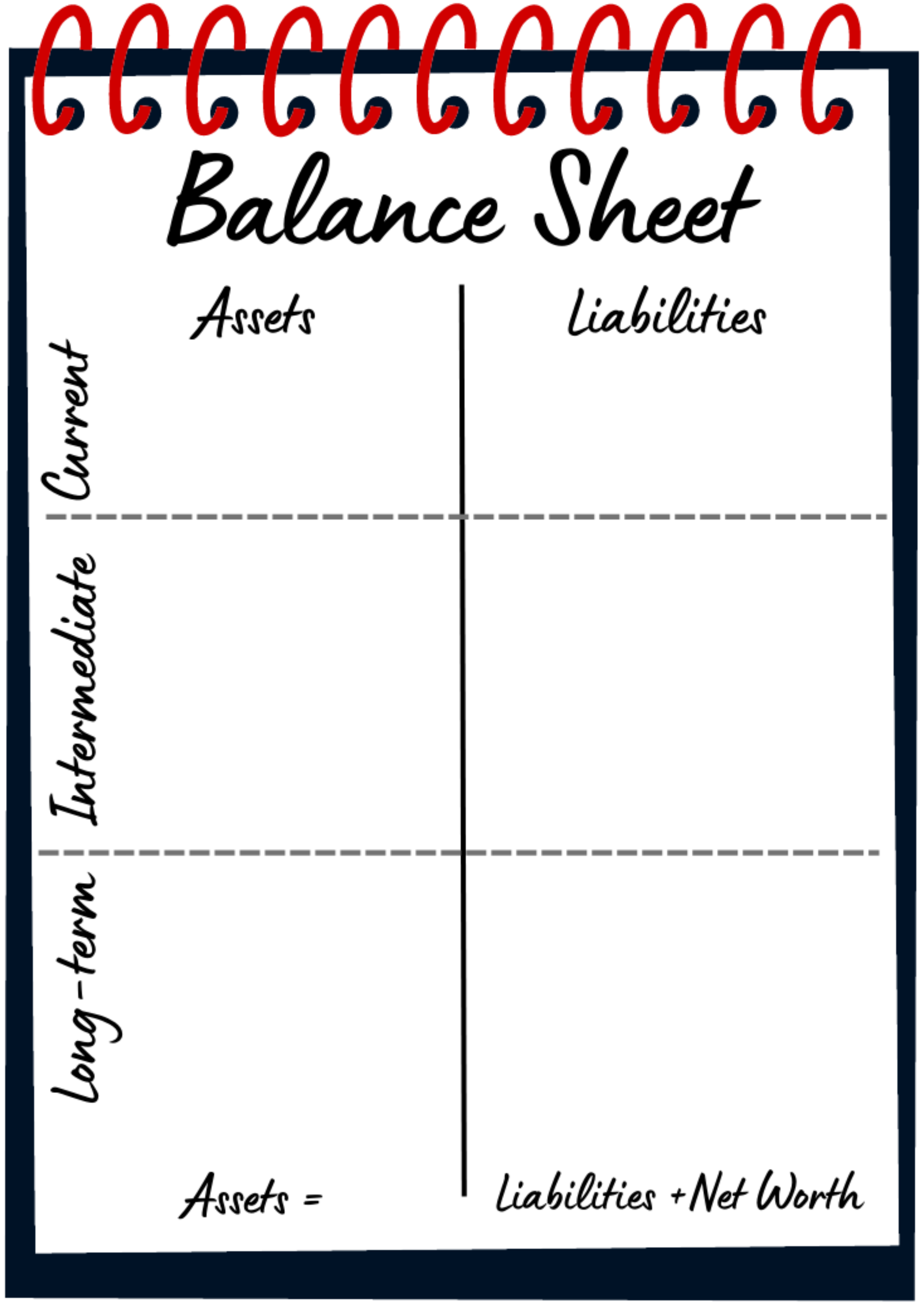
-Capital Purchases
+Capital Sales

Net Farm Income

Farm Financial Standards Council - provides standard financial guidelines for farms/ranches

- Allow for comparison across businesses
- Monitor financial health
- Measure financial performance

Currently 21 measures



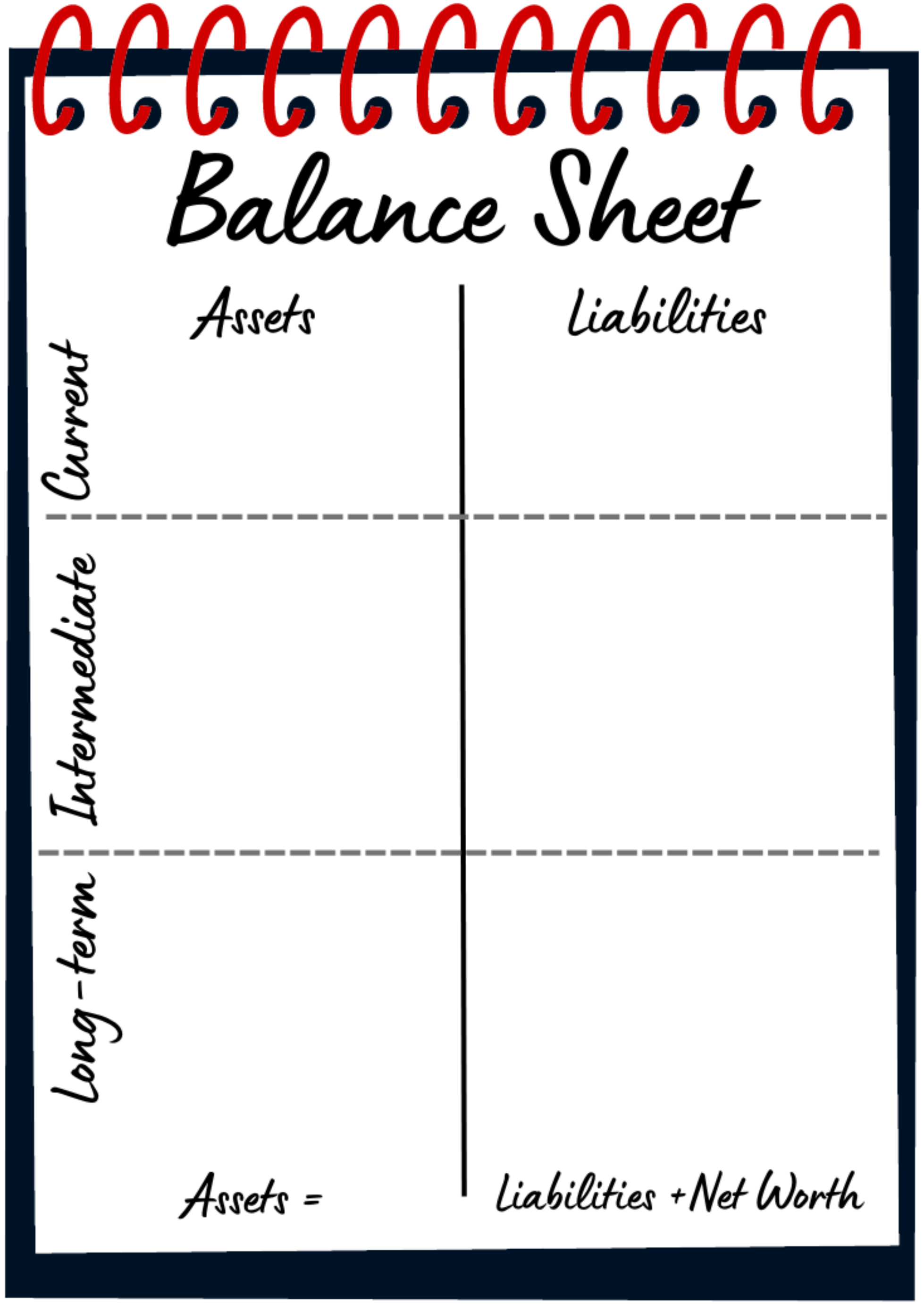
Ratios…

- **Liquidity Measure** – is the ability of a business to meet financial obligations as they come due.
  - Working capital
  - Current ratio
- **Solvency Measure** – the ability of a business to pay all of its debts if it were sold tomorrow.
  - Debt to asset ratio
- **Profitability** – the difference between the value of goods produced and the cost of their production.

EXTENSION

A balance sheet does **NOT** show profitability.

It shows liquidity and solvency.



Ratios…

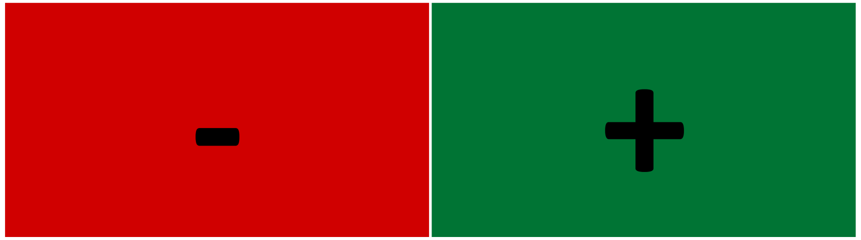
- Working Capital
- Current Ratio
- Total Debt to Asset

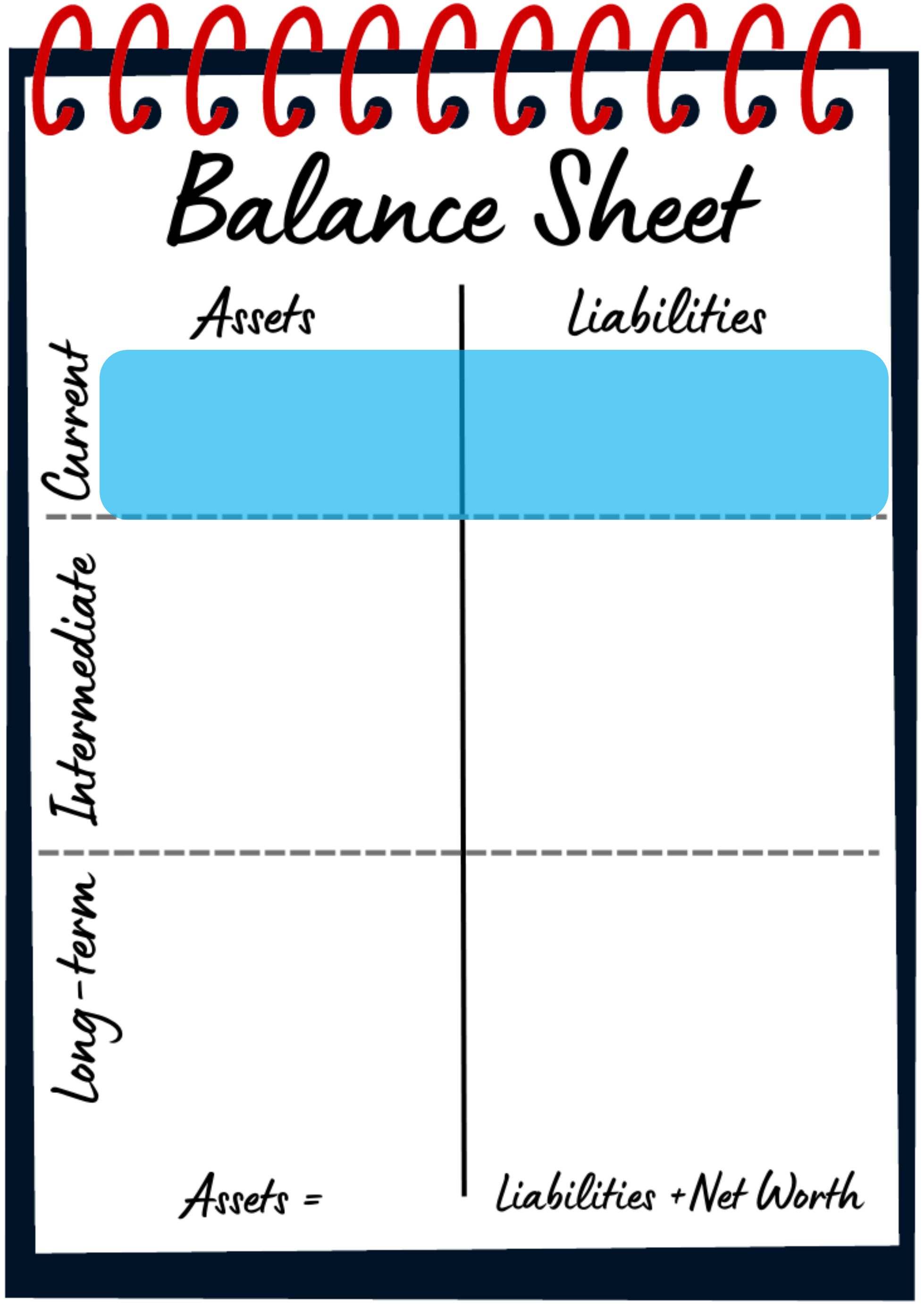
Working Capital

Liquidity Measure – ability to meet short-term obligations, expressed in $.

$$Current\ Assets \quad - \quad Current\ Liabilities$$

Can the business cash flow in the near term?





Current Ratio

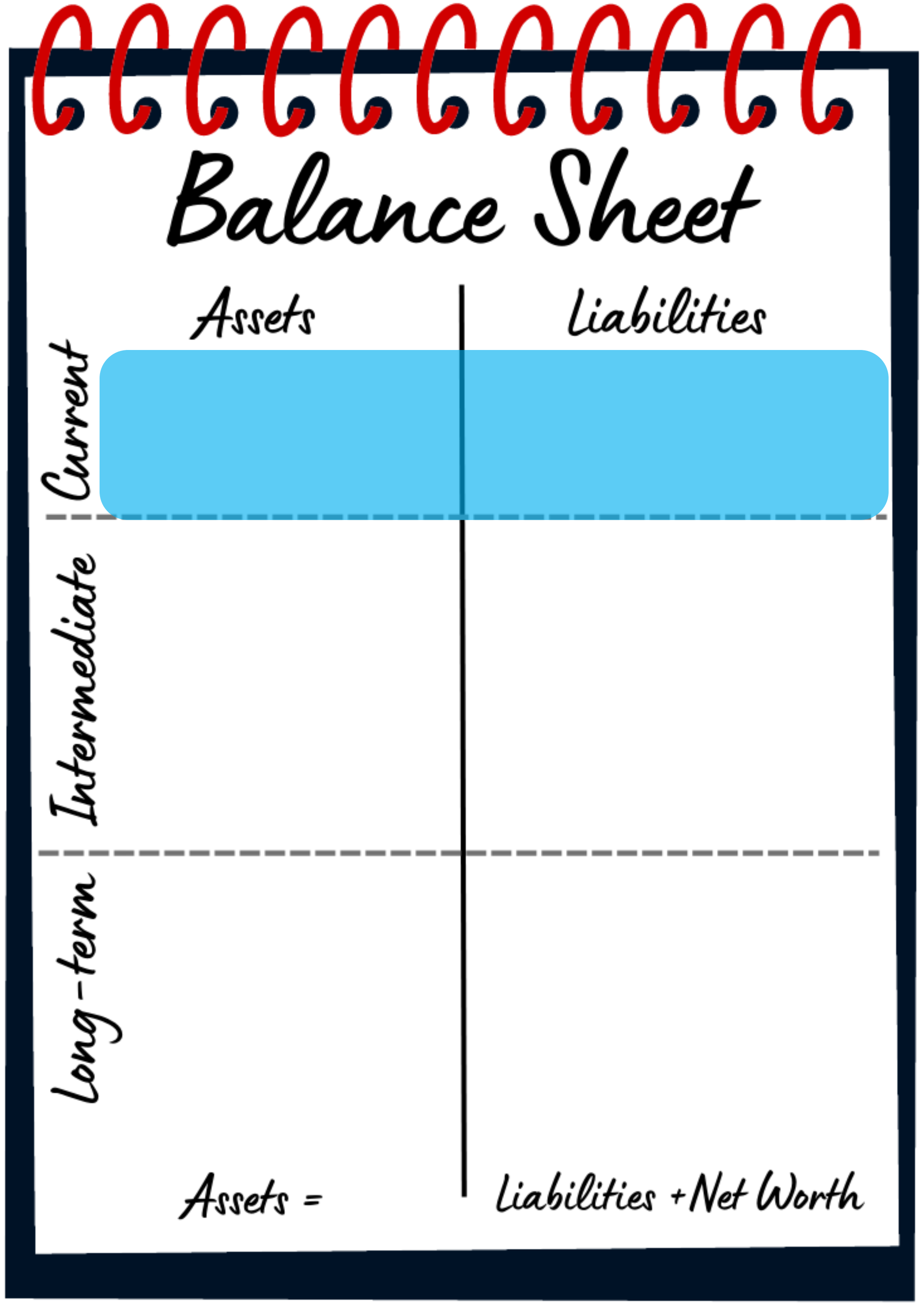
Liquidity Measure – ability to meet short-term obligations, expressed as a %.

$$\frac{Current\ Assets}{Current\ Liabilites}$$

"You/I have $X.XX assets to cover each $1.00 of liabilities" (the bigger the better).

<1.3	**1.3 -2.0**	**>2.0**

https://www.cffm.umn.edu/wp-content/uploads/2019/02/FarmFinanceScorecard.pdf



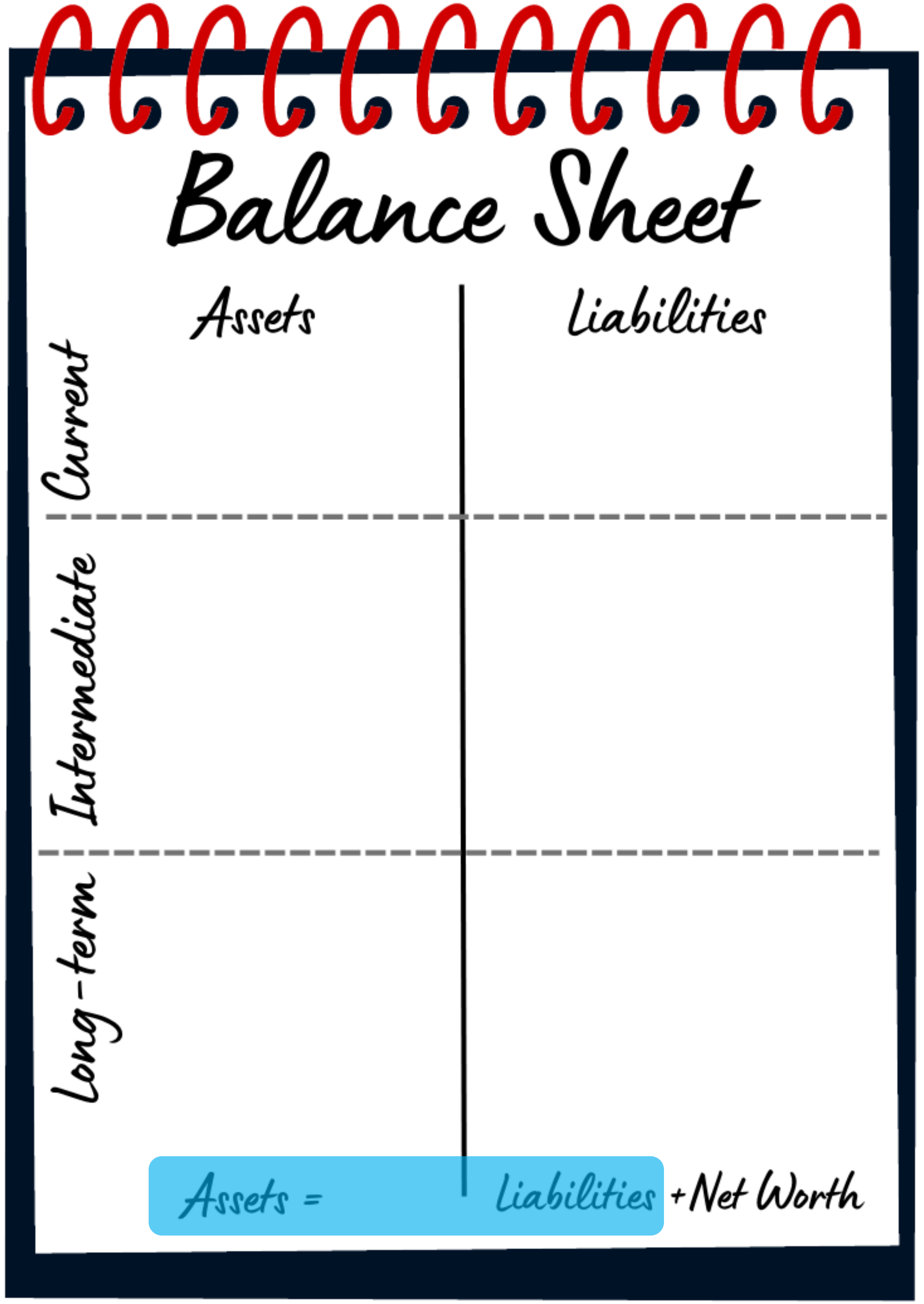
Debt/Asset Ratio

Solvency Measure – the ability of a business to pay off all of its debts.

$$\frac{\text{Total Liabilities}}{\text{Total Assets}}$$

How much of the business the bank owns (smaller the better).

>60%	30-60%	<30%



https://www.cffm.umn.edu/wp-content/uploads/2019/02/FarmFinanceScorecard.pdf

Improving Your Balance Sheet

- Sell assets for more than they are valued for on the balance sheet
- Pay off debt
- Refinance (next slide)
- Delay capital purchases
- Reduce personal withdrawals
- Sell off unprofitable or unnecessary assets – use assets more efficiently (custom farming)

EXTENSION

Refinancing

- Improve cash flow/ reduce current liabilities by lowering the annual payments by renegotiating the terms of the loan.
  - Extending the period over which the loan is repaid
  - Reducing the interest rate on the loan

- Difficult because most interest rates are currently higher than intermediate and long-term loans established in the past 5 years

N EXTENSION

Farm Bankruptcy – Chapter 12

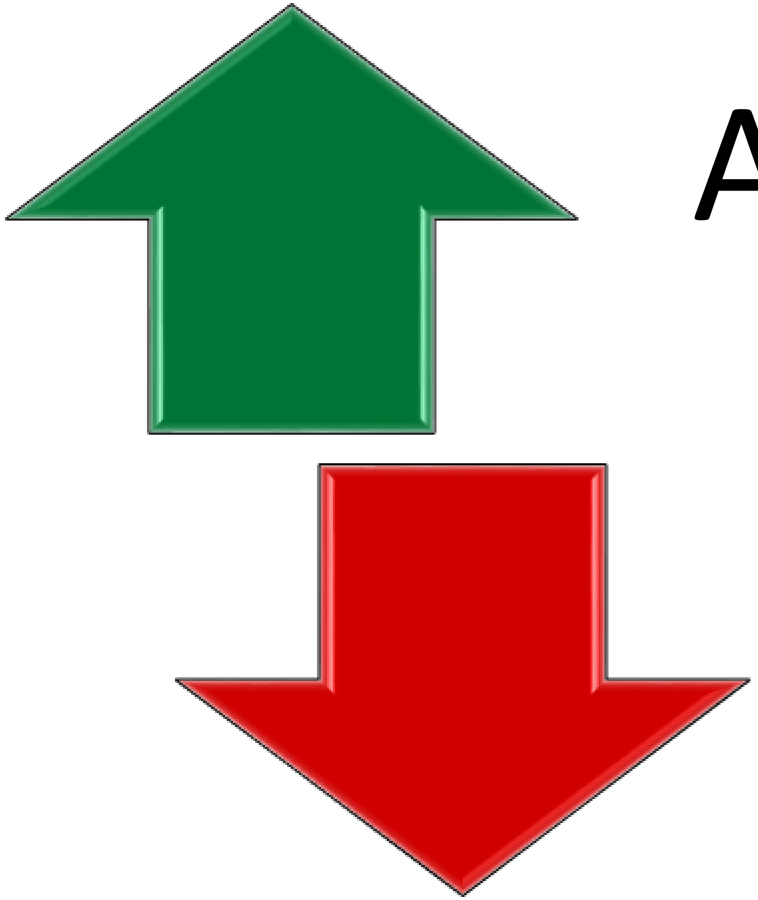
- Not "forgiveness" – repayment plan over 3-5 years

- The individual or individual and spouse must be engaged in a farming operation
- The total debts (secured and unsecured) must not exceed $11,097,350
- At least 50% of the total debts that are fixed in amount (exclusive of debt for the debtor's principal residence unless such debt arises out of a farming) must arise out of a farming operation.
- More than 50% of the gross income of the individual or the individual and spouse for the preceding tax year (or, for family farmers only, for each of the 2nd and 3rd prior tax years) must have come from the farming.

EXTENSION

SOURCE: https://www.uscourts.gov/services-forms/bankruptcy/bankruptcy-basics/chapter-12-bankruptcy-basics

Improving your balance sheet.



Assets

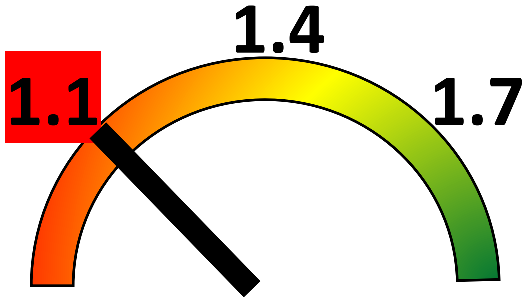
Liabilities

An Example

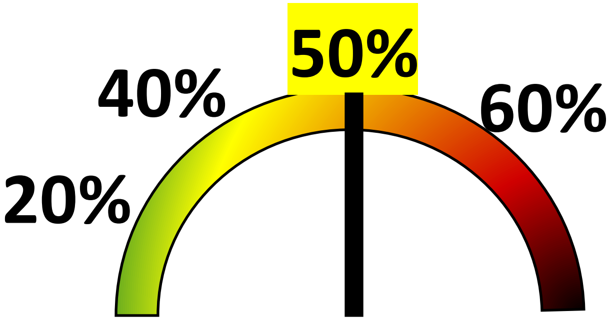
Assets	Liabilities
Current Assets = $100,000	Current Liabilities = $90,000
Intermediate Assets = $900,000	Intermediate Liabilities = $410,000
Long Term Assets = $4,000,000	Long Term Liabilities = $2,000,000
	Total Liabilities = $2,500,000
	Net Worth =$2,500,000
Total Assets = $5,000,000	Total Liabilities + Net Worth = $5,000,000

Working Capital

$10,000



Current Ratio



Debt to Asset

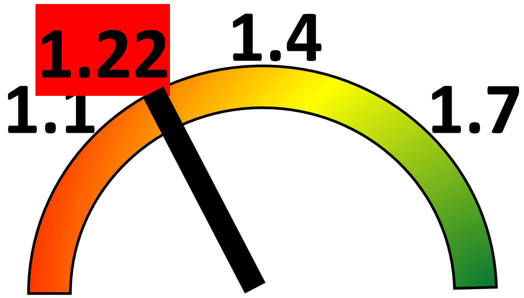
What should I do with $10,000?

1. Put in current assets
2. Pay-off current liabilities
3. Put in intermediate assets

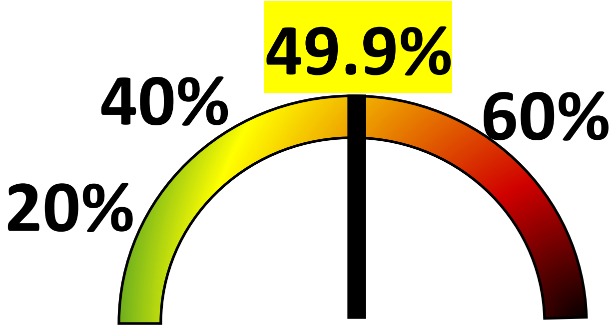
Put $10,000 in *Current Assets*

Assets	**Liabilities**
Current Assets = $110,000	Current Liabilities = $90,000
Intermediate Assets = $900,000	Intermediate Liabilities = $410,000
Long Term Assets = $4,000,000	Long Term Liabilities = $2,000,000
	Total Liabilities = $2,500,000
	Net Worth =$2,510,000
Total Assets = $5,010,000	Total Liabilities + Net Worth = $5,010,000

Working Capital
$20,000



Current Ratio

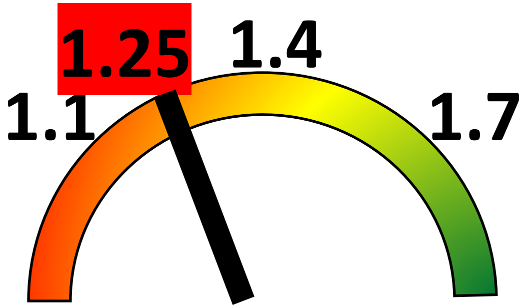


Debt to Asset

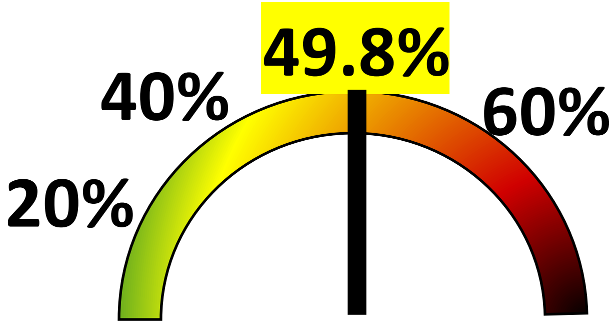
Payoff $10,000 in *Current Liabilities*

Assets	Liabilities
Current Assets = $100,000	Current Liabilities = $80,000
Intermediate Assets = $900,000	Intermediate Liabilities = $410,000
Long Term Assets = $4,000,000	Long Term Liabilities = $2,000,000
	Total Liabilities = $2,490,000
	Net Worth =$2,510,000
Total Assets = $5,000,000	Total Liabilities + Net Worth = $5,000,000

Working Capital
$20,000



Current Ratio

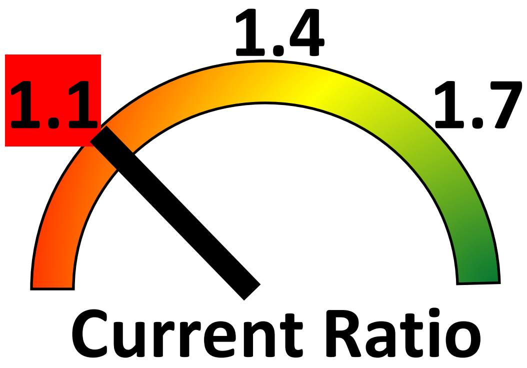


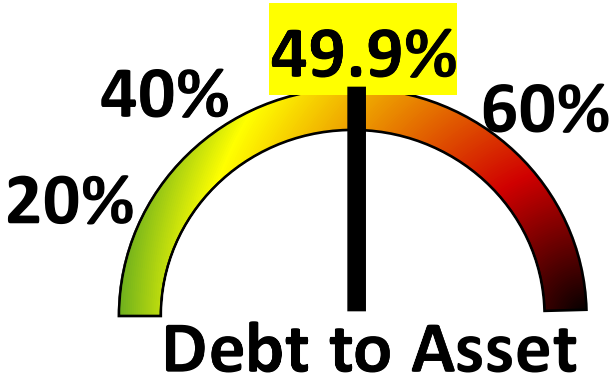
Debt to Asset

Put $10,000 in *Intermediate Assets*

Assets	Liabilities
Current Assets = $100,000	Current Liabilities = $90,000
Intermediate Assets = $910,000	Intermediate Liabilities = $410,000
Long Term Assets = $4,000,000	Long Term Liabilities = $2,000,000
	Total Liabilities = $2,500,000
	Net Worth =$2,510,000
Total Assets = $5,010,000	Total Liabilities + Net Worth = $5,010,000

Working Capital
$10,000





Summary

	Working Capital	Current Ratio	Debt to Asset
START	$10,000	1.1	50%
Add $10,000 to current assets	$20,000	1.22	50%
Pay off $10,000 in current debt	$20,000	1.25	50%
Buy a $10,000 in intermediate assets	$10,000	1.1	50%

Farm and Ranch Balance Sheets

Jessica Groskopf

jgroskopf2@unl.edu

call/text 308-632-1247

EXTENSION