



So You Want to Farm in Maine

Financial Statements

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The three main forms

- Balance Sheet – also known as net worth statement
- Income Statement –
- Cash flow Statement



Balance Sheet

- Summarizes the assets a farm has and the liabilities.
- The difference between total assets and total liabilities is net worth (or owner's equity in the business)
- The balance sheet is a snapshot of the farm at a point in time. Often this is year end.
- Measures how solvent a business is – ie. If the farm went out of business how much of the debt would be covered by the assets.
- Typically a part of every loan application



Balance Sheet

- Only shows assets owned and liabilities owed
- Leases would not be included for example
- Typically, the balance sheet is arranged with assets on the left column and liabilities on the right side.
- The next slide shows the typical layout
- Additionally, assets and liabilities are divided into how easily they can be "sold" and the liabilities by their lifespan



Balance Sheet – valuing can be difficult

- Current Assets (liquid)
 - Cash
 - Feed on farm
 - Livestock to sell in next year
 - Accts Receivable
- Current Liabilities (1 yr)
 - Accts Payable such as feed, vet, repair, fuel
 - Operating loan
 - Taxes
- Intermediate Assets
 - Breeding livestock
 - Machinery
- Intermediate Liabilities
 - Loans for machinery and cattle – ie 7 yr lifespan
- Long Term Assets
 - Real estate
- Long Term Liabilities
 - Real estate mortgages



Balance Sheet – Example Assets

- Current Assets (liquid)
 - Cash \$8000.
 - Feed on farm \$3200.
 - Livestock to sell in next year \$7800.
 - Accts Receivable \$ 300.
 - Total Current Assets \$19,300
- Intermediate Assets
 - Breeding livestock 0
 - Machinery \$85,000.
- Long Term Assets
 - Real estate \$450,000.



Balance Sheet – Example Liabilities

- Current Liabilities
 - Feed \$3000.
 - Vet \$900.
 - Fuel \$1000.
 - Prop Tax \$ 5000.
 - Operating Loan \$25,000.
 - Total Current Liabilities \$33,900
- Intermediate Liabilities
 - Breeding livestock 0
 - Machinery - loan \$80,000.
 - Total Intermediate Liabilities \$80,000.
- Long Term Liabilities
 - Real estate- mortgage A+Bank \$400,000.



Balance Sheet – valuing can be difficult

- Current Assets (liquid) • Current Liabilities (1 yr)
 - \$19,300 • \$33,900
 - Intermediate Assets • Intermediate Liabilities
 - \$85,000 • \$80,000
 - Long Term Assets • Long Term Liabilities
 - \$450,000 • \$400,000
 - Total Assets • Total Liabilities
 - \$554,300 • \$513,900
 - Net Worth
 - \$40,400
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Balance Sheet

- Net Worth
 - Total assets – Total liabilities
 - \$554,300 - \$513,900 = \$40,400
- Current Ratio
 - Current assets/Current Liabilities
 - \$19,300/\$33,900 = .57 \$.57 assets for every \$1 in liabilities
- % Equity
 - Net worth/Total assets
 - \$40,000/\$554,300 = .07 or 7% equity



Income Statement or Income/Expense or Profit/Loss

- Compares actual income and expenses on a farm
- Income is listed on the left side and Expenses on the right.
- Measures farm earnings for a year
- Different from Cashflow in that the payables and receivables are accounted for and depreciation is included.
- Uses changes in inventory (accrual accounting) to evaluate financial performance. Farms may use accrual accounting for taxes, but most use cash.



Income Statement

- | | |
|---|---|
| <ul style="list-style-type: none"> • Income • Livestock • Products Sold • Crops sold • Custom work • Rent • +Acct Receivable rec'd • -Acct Receivable opened • Inventory changes | <ul style="list-style-type: none"> • Expenses • Livestock purch • Feed • Crops – seed, fert., chemicals • Marketing • Hired labor • Fuel, oil • Repairs • Utilities • Interest • Taxes • Rent paid • +current payables paid • -current payables opened • +depreciation |
|---|---|

Gross Farm Income – Total Farm Expenses = Net Farm Income
And measures the earnings of the farm operation



Cashflow statement

- Details the sources of income (both farm and nonfarm), any loans received and the disbursements as expenses, family draw, loan payments, sales of equipment/other capital and business enhancements.
- Discern between the historical cashflow statement and the future cashflow projection
- Lists ALL sources of income and expenses – does not measure profit



Cashflow

- Typical cash expenses
 - Breeding fees
 - Chemicals
 - Custom hire
 - Feed purchased
 - Fertilizer/lime
 - Trucking
 - All fuels
 - Hired labor
 - Rent/lease
 - Repairs
 - Seeds/plants purch.
 - Supplies
 - Taxes
 - Utilities
 - Vet costs
 - Miscellaneous



Cashflow

- After Total Cash Receipts – Total Cash Expenses = Net Cash Flow
- Family Living costs
- Debts are paid
- Planned expansions – livestock, equipment, bldgs.
- Any borrowed money needed
- Depreciation, inventory change not included



Projected Cashflow

- Useful in planning to generate multiple cashflows based on different prices received, different yields per acre and different expenses such as different fuel sources
- Also can be used to determine the sensitivity of a business to a downturn in business