



COOPERATIVE EXTENSION
College of Agriculture, Forestry and Life Sciences

FINANCIAL TRICKS OF THE TRADE

2022 EXECUTIVE FARM MANAGEMENT

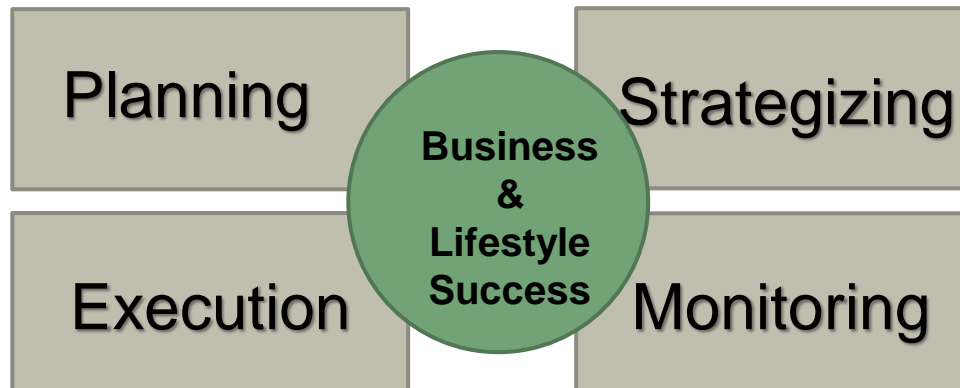
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Four Cornerstones of Success



Source: "Strategies for a Better Business." Dr. David M. Kohl. January 5, 2017. Executive Marketing seminar.

Appreciation Per Year	3%	per year
Downpayment	0%	
Interest Rate (New)	6.50%	
Loan Term	4	years

CAPITAL EXPENDITURE PLAN

ITEM	REPLACEMENT PLAN			PLANNED CAPITAL EXPENDITURES					
	Year	PROJECTED Cost	100% Financing	Projected Payment	2019	2020	2021	2022	2023
No Till Planter	2022	98,538	98,538	\$28,764	-	-	-	98,538	-
100hp Tractor (2)	2025	167,990	167,990	\$49,037	-	-	-	-	-
150hp Tractor (2)	2019	268,783	268,783	\$78,459	268,783	-	-	-	-
200hp Tractor (2)	2023	388,067	388,067	\$113,278	-	-	-	-	388,067
50hp Tractor (2)	2020	126,677	126,677	\$36,977	-	126,677	-	-	-
Combine 1	2021	301,319	301,319	\$87,956	-	-	301,319	-	-
Combine 2	2024	461,203	461,203	\$134,626	-	-	-	-	-
High Boys	2020	161,270	161,270	\$47,075	-	161,270	-	-	-
Irrigation	2035	1,354,583	1,354,583	\$395,407	-	-	-	-	-
Equip Refi	2016	-	-	\$0	-	-	-	-	-
Other Equipment									
<i>OPERATING INTEREST</i>									
TOTAL		\$1,977,056		\$577,108	\$ 268,783	\$ 287,947	\$ 301,319	\$ 98,538	\$ 388,067

LIQUIDITY

- Measures the ability of a farm business to meet financial obligations as they come due in the ordinary course of business, without disrupting the normal operations of the business. (Page III-2. "Financial Guidelines for Agriculture." January 2015. Farm Financial Standards Council.)

- **Total Assets – Total Liabilities = TOTAL EQUITY**

- **Current Assets – Current Liabilities = ~~Current Equity~~
WORKING CAPITAL**

Is a theoretical measure of the amount of funds available to purchase inputs and inventory items after the sale of current farm assets and payment of all current farm liabilities. The amount of working capital considered adequate must be related to the size of the farm business. (Page III-8. "Financial Guidelines for Agriculture." January 2015. Farm Financial Standards Council.)

- ***Equity the business can use without disrupting fixed assets.***



DIVE IN TO LIQUIDITY

- a. 1. **CASH ON HAND:** **HIGHLY LIQUID**
 - a. Cover 1-2 months of average expenses?
 - b. Cover TOTAL TERM DEBT Payments for next 12 months?
- b. 2. **ACCOUNTS RECEIVABLE:** **LIQUIDITY VARIES**
 - a. Change in A/R from prior year?
 - b. Collectible?
 - c. Timing
- c. 3. **INVENTORY – GRAIN OR LIVESTOCK**
 - a. Priced **HIGHLY LIQUID**
 - b. Unpriced **LOW LIQUIDITY**
 - c. Sales Timing
 - d. Quality
- d. 4. **PREPAID EXPENSES:** **LOW LIQUIDITY**
 - a. “Unsecured” line of credit to vendor. 12-18 month commitment.
 - b. How secure? What if vendor defaults?



DIVE IN TO LIQUIDITY

- e. 5. **GROWING CROPS/LIVESTOCK:** **LOW LIQUIDITY**
 - a. Insurance coverage?
 - b. Timing
 - c. Quality
- f. 6. **ACCOUNTS PAYABLE/LINE OF CREDIT:**
 - a. Change in A/P from prior year?
 - b. Less than inventory?
 - c. < 5% **revenue** vs. > 25% **revenue**
- g. 7. **DEFERRED TAX CONSEQUENCES**
 - a. Typically not reported
 - b. Significant planning hurdle – transition, succession, & estate
 - c. Cash + Inventory – Operating Debt – Deferred Taxes

DEFERRED TAX CONSEQUENCES

Represent an estimate of income taxes that would be due if assets on your balance sheet were sold at their indicated value.

Types:

1. Deferred taxes on **current inventories**.
2. Deferred taxes on **sale of capital assets**.

Which impacts working capital?

Why don't we report deferred tax liabilities?

BFF: DEFERRED TAXES ON CURRENT INVENTORIES

12/31/2021

	Current Assets	\$4,211,071
	<u>- Current Liabilities</u>	<u>\$3,002,223</u>
<i>Schedule Y: Deferred liabilities</i>	= Current Equity	\$1,208,848

Deferred Taxes On Current Inventories

Market value of current inventories	PP Exp, A/R, Hedging, Crop Inventory		3,810,063	
Accounts payable and accrued expenses	Accrued Interest, Payables & accrued expenses	(-)	153,212	
Purchase cost of feeder livestock		(-)	-	
Government crop loans already taxed		(-)	-	
Tax loss (NOL) carryforwards		(-)	-	
Taxable current inventory value		(=)	3,656,851	
Estimated marginal tax rate (%)	Self Employment Tax, Federal & State Tax	(*)	30	
Deferred taxes on current liabilities			1,097,055	
Deferred liabilities on capital assets		(=)	-	
Total deferred liabilities			1,097,055	

Revised:

42%
\$1,535,877
+\$460,763

Current Equity with Deferred Tax	\$ 111,793	-\$348,970
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WHAT ARE WE WORTH (*FINANCIALLY*)?

February 28, 2022

John Brown was writing checks to cover everybody's 2021 income taxes, when Kent and Vicki walk in the door. "What's up" he asks.

Kent replies "Do you remember that Life Stress Inventory test that Dr. Taylor shared with us a couple of weeks ago? Well, your mom and I finally got around to taking it. I scored a 363 and Vicki was only a 309. Since we are both headed for a major health breakdown soon, we decided to sell the farm."

"Huh?" I replied.

"Yeah, Andrew Douglas Smith (aka Alpha Dog) has offered us \$5,500,000 for all the machinery, equipment, buildings, and land. That's a lot better than that balance sheet we gave the bank. It said we were only worth \$4,900,000.

But he is willing to listen to a counter offer.

WHAT ARE WE WORTH (*FINANCIALLY*)?

Statements of Financial Accounting Concepts No. 2 (FASB, May, 1980)

*All financial reporting is concerned in varying degrees with decision making. The need for information to base investment, credit, and similar decisions underlies the objectives of financial reporting. The **usefulness of information must be evaluated in relation to the purposes to be served**, and the objectives of financial reporting are focused on the use of accounting information in decision making.*

What decision are we making?

Is our 12/31/2021 Balance Sheet relevant?

WHAT HAS CHANGED SINCE 12/31/21?

	<i>Dec 31, 2021</i>	<i>Feb 28, 2022</i>		<i>Dec 31, 2021</i>	<i>Feb 28, 2022</i>
	<i>Operating</i>			<i>Operating</i>	
<i>Current Assets</i>			<i>Current Liabilities</i>		
Cash and checking	401,008	350,000	Accounts payable and other accrued exp.	125,750	62,500
Prepaid expenses and supplies	68,053	68,053	Accrued interest	27,462	51,781
Growing crops	-	125,000	Principal due within 12 months on term loans	245,790	246,447
Accounts receivable	63,177	57,500	Current loans	2,603,221	2,726,203
Hedging accounts	68,950	68,950	Total current liabilities	3,002,223	3,086,931
Crop inventory	3,609,883	3,134,883			
Total current assets	4,211,071	3,804,386	<i>Intermediate & Long Term Liabilities</i>		
			Intermediate loans	0	0
<i>Intermediate Assets</i>			Long term loans	753,961	728,993
Machinery and equipment	3,412,288	3,107,288	Total farm liabilities	3,756,184	3,815,924
Other intermediate assets	2,500	2,500			
Total intermediate assets	3,414,788	3,109,788	Personallabilities	0	0
			Deferred liabilities	1,097,055	2,560,282
<i>Long Term Assets</i>			Total Liabilities (including deferreds)	4,853,240	6,376,206
Land	1,750,000	1,750,000			
Buildings and improvements	331,550	331,550	<i>Equity</i>		
Other long term assets	89,900	89,900	Net worth	4,944,069	2,709,418
Total long term assets	2,171,450	2,171,450	Net worth change	0	-2,234,651
Total farm assets	9,797,309	9,085,624			

WHAT ARE WE WORTH (*FINANCIALLY*)?

\$5,500,000 for all the machinery, equipment, buildings, and land.

Reactions?

12/31/21	\$4,944,000
2/28/22	\$5,269,700
LESS DT	- 2,560,300
After Tax	= \$2,409,400

POINTS TO PONDER!

- **Real Estate** – Sell the home place? Seriously?!?
- **Buildings**- value to existing operation versus value to buyer
 - Does AD need another shop?
- **Other Long Term Assets**-
 - Investment in Tri County Packing
- **Cash on hand**
- **Crop Inventory**
- **Line of Credit**
 - Accessible?
 - Payoff
- **LT Liabilities** – Prepay Penalties?

WHAT TO DO?