

## **Ranch or Farm Business or Personal Balance Sheet Preparation and Loans Descriptions**

The purpose of these decision aids is to provide the producer with complete information on the ranch and personal or family loans summary or to prepare a balance sheet that matches liabilities with balance sheets assets. This information addition provides the producer financial management information but also keeps the tax CPA and lenders informed. Loan information helps evaluate alternatives that could reduce borrowing cost and reduce borrowing risk.

Loan data preparation follows Farm Financial Standards Council (FFSC) guidelines to prepare the required **accrual adjusted income statement**, the **statement of cash flow** and a market **valued balance sheet** (see reference list). This information supports development of these statements, including the family loan information to complete the cash flow, loan payments and cash withdrawals for the business **statement of cash flow**.

Other information provided is the loan collateral or asset identified with the particular loan. For example, the real-estate identifies with the actual term loan. Machinery or vehicles loans identify with the investment. Livestock or crops are identified with the operating loan. This supports the consideration of timing of making annual payments. This can help avoid meeting loan payments before the cattle or crops are ready to be marketed.

Three spreadsheets are provided: 1. loan description, 2. the ranch or farm business balance sheet and loans and 3. the personal or family balance sheet and loans. This generates a standalone report and provides data for completing financial statements. The IRS Schedule F reports interest cost in two categories: a. Mortgage and b. Other. Describing loans following list that will meet the data needed to complete financial statements following FFSC guidelines.

### **Mortgage Loan or Other Loans – Description Items**

Lender Name  
Asset(s) Involved - Collateral  
Loan Beginning Date  
Total Value of Investment  
Amount of Loan  
Down Payment  
Down Payment - % of Total Value  
Interest Rate - %  
Length of Interest Rate – Years  
Length of Loan - Years  
Annual Date of Payments

### **For Total Financial Reporting**

Added Loans in Fiscal Year  
Beginning of Year Loans Balance  
End of Year Loans Balance  
Interest Payment Made  
Principal Payments Made  
Collateral Comments

## **Operating Loan Description**

Lender Name  
Loan Number Given  
Amount of Loan  
Interest Rate  
Beginning and Ending Year Balance

In addition to the spreadsheets to describe term and operating loans and provide data for preparation of financial statements there is an additional spreadsheet attached in the decision aid to calculate the loan payment schedule. This facilitates calculating payments for all loans and evaluating borrowing alternatives. A data worksheet is provided to print and organize the loan description data. When term loan payment information is lacking or incomplete a calculator is included to address this data need.

Credit card debt can be included if there is an unpaid balance. Interest rates certainly discourage this as a source of operating capital. Check the Annual Percentage Rate (APR) for interest.

The **balance sheet** version provides a summary of principal and interest payments for the fiscal year that is useful for payment planning. The **solvency measure** is calculated in the balance sheet version.

Always check data generated and reports with the lenders and the business tax CPA.

## **Decision Aids Titles**

- a. Loan Description by Lender and Payment Calculator
- b. Ranch Market Valued Balance Sheet with Loan Descriptions and Calculator
- c. Personal or Family Balance Sheet with Loan Description and Payment Calculator

## **Implementation**

The first step is to organize all the loan information by lender. Use the lender payment schedule. If the loan payment information is incomplete the loan payment schedule calculator included in the decision aid can facilitate calculation.

The balance requires more financial data and starts with what is in place and what data is lacking. Once completed annual updates require limited data. Of course, preparing the balance sheet facilitates completing the financial statement and calculating the performance measures by financial criteria. That is implementation of the FFSC recommendations.

## Balance Sheet Glossary of Select Financial Terms

### Balance Sheet

**Balance Sheet** is a financial statement that shows the financial conditions of the business at a particular point in time. It is a list of assets and liabilities (what the business owes) and equity (what the owner owns).

**Equity** is the difference between total assets and total liabilities. This gives an indication of the dollar amount actually owned by the operator, and represents the capital base available to handle adversity.

**Equity to Asset Ratio or Percent Equity (%)** is a **solvency** measure that is calculated by dividing total equity by total assets. It measures the proportion of assets financed by the owner's equity capital. In other words, it is the owner's claim against the assets of the business.

The higher the equity to asset or percent equity ratio means that more total capital has been supplied by the owner(s) and less by the creditors.

**Liabilities to Asset Ratio** shows what portion of total business assets is owned by creditors.

**Equity to asset as a percent** shows the portion of total farm/ranch assets contributed by the owner's equity. Also called percent ownership.

### Income Statement

**Measuring ranch profitability** requires accrual adjustments **to match revenue with expenses during the fiscal year**. Ranch revenue is recorded **when earned and expenses are recorded when incurred**.

This is in contrast to the **IRS cash basis of accounting** where revenue is recorded only when cash is received, and expenses are recorded when cash is paid. When using cash accounting no attempt is made to match revenue against expenses. However, this IRS compliant cash data is a big part of developing useful accrual adjusted income statement and the statement of cash flow.

**Net Accrual Income** or **profit** is the revenue earned minus the expenses incurred during the operating year including the interest expense without regard to the exchange of cash. Net income is calculated after accounting for family living expenses/withdrawals (owner labor and management) and reflects the enterprise contribution to total farm or ranch income. For operations that pay salary and wages, this cost is included in operating costs. This is a pre-tax net income and is not equal to IRS taxable income.

**Net Cash Flow from Operations** is the amount of cash that is available after cash operating expenses are subtracted from cash operating income.

**Income Statement or Profit or Loss (P&L)** is an accrual-adjusted statement that is a summary of revenue and expenses for a defined period of time for the total business.

**Profitability** is the ability of the business to generate income in excess of expenses. It is expressed as the net returns to resources used in production. Profitability is necessary to sustain a production business – farm or ranch.

### **Statement of Cash Flows**

**Statement of Cash Flows** is a financial statement that provides a summary of the business' cash effects of producers operating, investing and financing activities. All cash movements in and out are summarized. This statement is particularly valuable in reconciling the cash movements in the business.

### **References:**

Farm Financial Standards Council. “*Financial Guidelines for Agricultural Producers*”, Revised 2022. [WWW.ffsc.org](http://www.ffsc.org).

Texas A&M University – Department of Agricultural Economics Beef Cattle Decision Aids  
<http://agecoext.tamu.edu/resources/decisionaids/beef>