Preparing Agricultural Financial Statements

Tip: All ag businesses require regular financial statements to track progress.

Thoroughly understanding your business' financial performance is critical for success in today's increasingly competitive agricultural environment. Accurate records and financial statements are the foundation material required to analyze the financial condition and trends of your operation. All agricultural businesses, from small part-time farms to large commercial operations, require financial statements completed on a regular basis to track financial progress including equity, liquidity, income, and cash flow.

How do financial statements prove useful?

As a tool for management

Successful managers use financial statements in combination with production records to identify strengths and weaknesses in their operation. In addition to tracking trends in assets and liabilities, financial statements can reveal where revenues are originating and where expenses are occurring. Financial statements can be used to time cash expenditures and plan for credit needs. Finally, these statements provide the critical data for ratio analysis and benchmarking.

As a tool for use with lenders and other professionals

Lenders request, and in most cases require, an accurate set of financial statements to accompany a credit request. A carefully prepared set of financial statements shows you have a detailed understanding of your business and its repayment capacity. Others, such as attorneys and financial planners, also need financial statements for services such as estate and retirement planning, organizational establishment, and buy-sell agreements for business transition purposes.

Tip: Take time to review year-end statements prepared by your accountant to better understand the true financial position of your business.

As a tool for tax compliance

A carefully prepared set of financial statements can make life much easier when tax time comes around.

This prevents last minute information collection and provides peace of mind in an IRS audit. Financial statements can be prepared by individuals, in-house employees or accountants. Statements prepared by accountants will range from simply compiling a business owner's numbers, to reviewing and reconciling numbers, to a formal, unqualified audit. Even if you have an accountant that keeps your operation's books and prepares your taxes, it's still important to understand how financial statements are prepared. Although accountants are professionals and are knowledgeable in their field, no one understands your business like you do.

Financial statements include the balance sheet, income statement, statement of owner equity, statement of cash flows, and cash flow projection. Our discussion will focus on the three most commonly used financial statements: the balance sheet, income statement and cash flow projection. Financial statements are interrelated; therefore, proper timing of the statements is important to gain the most benefit.

Balance sheet

The balance sheet is a statement of financial position at a specific point in time or a financial snapshot of the business. The balance sheet reflects the result of all past transactions but not how the current financial position was obtained. The balance sheet consists of three main parts:

Assets

Assets include anything that is owned by the entity that has monetary value. Standard accounting practices value assets at either cost, market value or the lower of the cost or market, depending on what is preferred by the person preparing or requesting the balance

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sheet. Assets valued on a cost basis are listed at the historical cost less any accumulated depreciation. Market valued assets are listed at fair market value based on the asset's condition, location or other relevant factors. Assets valued at the lower of cost or market are assigned either the cost value or the market value, whichever is lower. Assets should be separated into two categories: current and non-current. A more detailed discussion of asset classification will follow.

Tip: Assets and liabilities should be separated into two categories: current and non-current.

Liabilities

Liabilities include all claims against the business by creditors, suppliers or any other person or institution to which a debt is owed. Liabilities, like assets, are classified into current and non-current categories.

The basis for the balance sheet is the fundamental accounting equation:

Assets = Liabilities + Owner Equity

This equation shows the total assets of a business belong partially to claimholders and partially to the owners.

Owner equity

Owner equity, or net worth, is the difference between total assets and total liabilities. It reflects the owner's stake in the business and includes investment capital and retained profits. In a corporate business structure, owner equity will include stockholder's equity, additional paid-in capital and retained earnings.

SIMPLIFIED BALANCE SHEET

Current Assets	Current Liabilities
+ Non-Current Assets	+ Non-Current Liabilities
Total Assets	Total Liabilities
	+ Owner Equity
	Total Liabilities and Owner Equity

Assets

Current Assets

Current assets are the first classification of assets appearing on the balance sheet. Current assets include items such as cash or assets that can and will be turned into cash within a year without disrupting normal business operations. Current assets also include any items that will be consumed within a year. Examples of current assets include:

- **Cash** - Any cash on hand in checking or savings accounts.
- **Marketable securities** - Stock or other securities that are publicly traded and

can be easily turned to cash. This would include only those securities which the owner intends to convert to cash within the year. Stock or other securities held for long-term investment or for retirement should be considered non-current assets.

Tip: One problem encountered by some producers is balancing their debt terms with repayment capacity.

- **Accounts receivable** - Any amounts owed to the business for products or services provided for which payment has not been received.
- **Marketable inventories** - Crops and livestock held for sale. Do not include breeding livestock, as they are considered non-current assets.
- **Cash investment in growing crops** - The dollar amount of inputs invested in growing crops after planting but before harvest.
- **Supplies** - Any items such as fertilizer, chemicals or feed that are on hand and scheduled to be used in the next year.
- **Prepaid expenses** - Items that have been paid for but not yet consumed in full (examples include insurance premiums, rent or lease payments, and certain taxes).

Non-current assets

The second classification of assets is non-current assets. These assets support production activities and are considered to have a life greater than one year. In agriculture, common non-current assets include machinery and equipment. Breeding livestock are classified as non-current assets.

If a personal balance sheet is prepared, non-current personal assets may be included, such as household furnishings and equipment, personal and recreational vehicles, and personal retirement accounts. Another major category of non-current assets is real estate, including land, buildings and improvements. A personal residence may also be included, if the balance sheet is prepared for a consolidated entity.

Liabilities

Similar to assets, liabilities are also classified as either current or non-current. The liability section of the balance sheet should include all obligations (classified based on repayment schedule) as of the date of the balance sheet.

Current liabilities

Current liabilities include all debts and obligations that are due within the next 12 months. Examples of some common current liabilities are:

- **Accounts Payable** - Money owed to

suppliers or other businesses for products or services your business has received but not yet made payment for.

- **Operating loans** - Any outstanding balances on revolving or non-revolving operating lines of credit.

- **Principal portion of term loans due within the next year** - The total amount of principal on term loans that is due to be paid within the year.

- **Accrued interest** - The amount of interest that has accrued on all loans. This is the total amount of interest that would be due if all loans were paid off as of the day of the balance sheet – it is not the total amount of interest due to be paid in the next 12 months.

- **Accrued income and property taxes** - Property taxes are typically paid in a period following when they are incurred, and income taxes are paid as frequent as every quarter, so the balance sheet will often reflect some accrued tax liability.

- **Other accrued expenses** - Items such as rents and leases that have been utilized but not yet paid would be accrued expenses.

- **Credit card debt** - Credit card debt, including principal and interest, is included as a current liability. It's common in agriculture for loans to be financed for one year with the option of renewal at the end of the year given acceptable repayment performance. If the lender is under no obligation to renew the loan at the end of the original agreement, the liability should be classified as a current liability. This treatment may distort financial ratios, but legally the entire obligation is due at the end of one year.

Tip: Some common non-current liabilities include machinery, equipment, breeding livestock and real estate.

Non-current liabilities

Non-current liabilities capture all obligations that are due and payable beyond one year. The most common non-current liabilities are term loans used to finance machinery, equipment, breeding livestock, or real estate. The portion of the term loan due beyond 12 months is considered a non-current liability. Remember the principal amount due within 12 months is a current liability.

Contingent liabilities

Another category of liabilities is contingent liabilities, which includes such items as guarantees, pending lawsuits, and federal and state tax disputes. These items appear as footnotes to the balance sheet and are not liabilities at the present, but the potential for an obligation exists.

Owner Equity

Owner equity is a residual amount after liabilities are subtracted from assets (see Exhibit 1 below and Exhibit 2 on the next page). Owner equity reflects the owner's investment of capital into the business and retained earnings which are generated over time. Retained earnings are profits that have been reinvested back into the business rather

EXHIBIT 1 / BALANCE SHEET — BEGINNING OF YEAR

		Cost	Market Value
Current Assets			
Cash		$6,750	$6,750
Marketable Securities		2,500	5,500
Accounts Receivable		600	600
Livestock Held for Sale		48,500	48,500
Crops and Feed		61,500	61,500
Cash Investment in Crops		1,200	1,200
Supplies		1,300	1,300
Prepaid Expenses		500	500
Total Current Assets		**$122,850**	**$125,850**
Non-Current Assets			
Machinery and Equipment		–	$85,500
Cost	$110.500	–	–
Acc. Depreciation	40,000	$70,500	–
Breeding Livestock		22,500	22,500
Retirement Accounts		6,500	6,500
Cash Value of Life Insurance		8,100	8,100
Securities Not Readily Marketable		4,600	4,600
Personal and Recreational Vehicles		13,100	13,100
Household Goods and Personal Items		8,000	8,000
Farm Real Estate and Buildings		–	$495,000
Cost	$380,000	–	–
Acc. Depreciation	40,000	$340,000	–
Total Non-Current Assets		**$473,300**	**$643,300**
Total Assets		**$596,150**	**$769,150**

	Cost	Market Value
Current Liabilities		
Accounts Payable	$3,500	$3,500
Operating Loan	45,000	45,000
Principal Portion of Term-Debt Due Within One Year	34,000	34,000
Accrued Interest	10,500	10,500
Estimated Accrued Taxes	8,600	8,600
Accrued Rents Payable	1,300	8,000
Deferred Tax Liability on Current Assets	–	32,445
Total Current Liabilities	**$102,900**	**$110,900**
Non-Current Liabilities		
Machinery Loans	$29,000	$46,000
Real Estate and Building Loans	175,000	175,000
Deferred Tax and Liabilities on Non-Current Assets	–	23,250
Total Non-Current Liabilities	**$221,000**	**$244,250**
Total Liabilities	**$323,900**	**$355,150**
Owner Equity	**272,250**	**414,000**
Total Liabilities and Owner Equity	**$596,150**	**$769,150**

than withdrawn by the owners or paid out in dividends in the case of a corporation.

Balance sheet considerations

The ownership structure of agricultural businesses is becoming increasingly complex. The traditional sole proprietorship is no longer the norm in agriculture. Combinations of partnerships, corporations, and limited liability companies are quickly

EXHIBIT 2 / BALANCE SHEET — END OF YEAR

		Cost	Market Value
Current Assets			
Cash		$1,800	$1,800
Marketable Securities		2,500	5,800
Accounts Receivable		900	900
Livestock Held for Sale		54,100	54,100
Crops and Feed		68,300	68,300
Cash Investment in Crops		1,450	1,450
Supplies		600	600
Prepaid Expenses		350	350
Total Current Assets		**$130,000**	**$133,300**
Non-Current Assets			
Machinery and Equipment		–	$87,500
Cost	$116.500	–	–
Acc. Depreciation	43,000	$73,500	–
Breeding Livestock		20,500	20,500
Retirement Accounts		8,600	8,600
Cash Value of Life Insurance		8,650	8,650
Securities Not Readily Marketable		4,600	4,600
Personal and Recreational Vehicles		11,900	11,900
Household Goods and Personal Items		8,000	8,000
Farm Real Estate and Buildings		–	$509,000
Cost	$380,000	–	–
Acc. Depreciation	40,000	$336,000	–
Total Non-Current Assets		**$471,750**	**$658,750**
Total Assets		**$601,750**	**$792,050**

	Cost	Market Value
Current Liabilities		
Accounts Payable	$5,300	$5,300
Operating Loan	41,000	41,000
Principal Portion of Term-Debt Due Within One Year	35,500	35,500
Accrued Interest	9,400	9,400
Estimated Accrued Taxes	8,800	8,800
Accrued Rents Payable	1,300	1,300
Deferred Tax Liability on Current Assets	–	9,600
Total Current Liabilities	**$101,300**	**$110,900**
Non-Current Liabilities		
Machinery Loans	$37,450	$37,450
Real Estate and Building Loans	149,400	149,400
Deferred Tax and Liabilities on Non-Current Assets	–	25,950
Total Non-Current Liabilities	**$186,850**	**$212,800**
Total Liabilities	**$288,150**	**$323,700**
Owner Equity	**313,600**	**468,350**
Total Liabilities and Owner Equity	**$601,750**	**$792,050**

emerging with one entity holding operating assets and another entity controlling the capital assets. It is essential to identify the entity for which the balance sheet is being prepared, such as business, personal or a consolidation of both.

Tip: A University of Illinois study found that the difference between cash and accrual income averages 31 percent.

Timing

For analysis purposes, the timing of the balance sheet is important. Balance sheets are most useful when they consistently coincide with the timing of the income statement, usually at fiscal year-end, which is typically the end of the income period. The accrual adjusted income statement (discussed later) combines other data, including changes in the beginning and end-of-year balance sheets.

Asset valuation

A balance sheet is only as valuable as the quality of the information used to prepare it. When valuing assets on a market basis, a conservative approach is preferred, based upon appraisals and recent sales data in the market. When preparing a balance sheet, it's important to distinguish between possession and ownership of assets. If a partial interest in property is owned, then only that portion should be reflected as an asset on the balance sheet. Ownership issues also arise in the case of "life estates" and lease agreements.

When crop and livestock inventories are included on the balance sheet, they should be accompanied by a schedule detailing the amount and value of each item, indicating how the total value was derived.

Often a person is involved in more than one business venture. If so, information about assets and liabilities associated with other businesses should be identified. One business may show significant equity while another is heavily leveraged. Lenders are likely to request a consolidated balance sheet that combines all business and personal assets and liabilities.

Valuing leases

Numerous valuation issues arise when preparing balance sheets which exceed the scope of this discussion. An issue is that of capital leases for items such as tractors, combines, irrigation equipment, and storage structures. In the past, many lease obligations were simply included as footnotes to the balance sheet. However, these types of leases should be included on the balance sheet.

There are two types of leases: operating leases and capital leases. Operating leases allow the lessee the right to use an asset for a relatively short period of time. Operating leases should appear as a note to the

balance sheet (unless prepaid or past due), similar to the rental of farm land. A capital lease is a direct substitute for purchase of the asset with borrowed money. It transfers substantially all the benefits and risks inherent in the ownership of the property to the lessee. To be considered a capital lease, the agreement must meet any one of the following tests:

Tip: Capital leases should be included on the balance sheet.

- The lease transfers ownership of property to the lessee at the end of the term.
- The lease contains a bargain purchase option.
- The term of the lease is at least 75 percent of the estimated economic life of the property.
- The present value of the minimum lease payment equals or exceeds 90 percent of the fair market value of the leased property.

Exhibit 3 below, illustrates an example of a five-year capital lease agreement with annual payments (due at the beginning of the period) of $11,991. The lease is treated similar to an equal payment, amortized loan and must be reflected as both an asset and a liability on the balance sheet. Although there is no interest rate stated in the agreement, an $11,991 annual payment for five years at an "imputed interest rate" of 10 percent results in a present value of $50,000. This is the initial lease value (both asset and liability). Remember, it's the lease investment which is being put on the balance sheet, not

EXHIBIT 3 / BALANCE SHEET PRESENTATION OF CAPITAL LEASES

Initial Lease Value: $50,000

Annual Lease Payment: $11,991 (Beginning of Period)

Imputed Borrowing Rate: 10%

Lease Term: 5 Years

Annual Depreciation = Principal Reductions

	Beginning of Period (1)				
Non-Current Assets	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**
Capital Leased Asset (initial lease value)	$50,000	$50,000	$50,000	$50,000	$50,000
Less: Accumulated Depreciation	8,190	(17,199)	(27,108)	(38,009)	(50,000)
	41,810	32,801	22,892	11,991	–
Current Liabilities					
Current Portion of Capital Leases (1)	$9,009	$9,909	$10,901	$11,991	–
Non-Current Liabilities					
Non-Current Portion of Capital Leases	$32,801	$22,892	$11,991	–	–
Total Capital Lease Liabilities	**$41,810**	**$32,801**	**$22,892**	**$11,991**	–

the asset being leased.

Also in Exhibit 3, the asset is listed as a non-current asset each year. The principal due within the year and any accrued interest as of the date of the statement are listed as current liabilities, and the remaining lease obligation is a non-current liability.

Tip: A balance sheet provides a financial snapshot of the business at any given time. An income statement shows income and expenses for a period of time, usually one year.

Deferred taxes

As discussed earlier, assets can be valued on the balance sheet, either on a cost or market value basis. A market value balance sheet reflects the impact of deferred tax liabilities (refer back to **Exhibits 1 and 2** on pages 6 and 7). Deferred taxes are the federal and state taxes that would be incurred if the business was liquidated. Deferred taxes on current assets arise because many agricultural producers report income on a cash rather than accrual basis for income tax purposes. Therefore, they do not pay taxes on the accumulation of crop and livestock inventories over time. Income taxes would be due if inventories were sold and if the expenses associated with them had previously been deducted as cash expenses. Deferred taxes may also be present on non-current assets. Two examples of deferred tax situations are:

- Market value of assets exceeds cost less accumulated depreciation.
- Sales price of purchased breeding livestock exceeds the original cost.

Income statement

A business income statement, also called a profit and loss statement, is used to measure revenues and expenses over an accounting period. Unlike the balance sheet, which reflects the financial position at any given point in time, the income statement shows income and expenses for a period of time, usually one year. Income statements can be used to determine income tax payments, analyze a business' expansion potential, evaluate the profitability of an enterprise, and assist in loan repayment analysis.

Identify entity

Identifying the business entity is also important when preparing an income statement. The income statement should be prepared for the same entity as the balance sheet, either business, personal or consolidated. Because of the interrelationship between the balance sheet and income statement, the time period covered by the income statement should be the time between the beginning and ending balance sheets. The most common period is annually, although quarterly or monthly statements are sometimes desired.

Revenues and expenses

All income statements include two categories: revenues and expenses. However, income statements can be prepared two ways, depending on how revenues and expenses are derived. A cash income statement measures revenues only when received and expenses only when paid. An accrual income statement measures revenues when generated and expenses when incurred, whether or not cash actually changes hands. The cash income statement (illustrated in **Exhibit 4**) is the easiest to prepare but is inadequate for measuring true profitability because it fails to match the timing of income and expenses.

EXHIBIT 4 / CASH INCOME STATEMENT FOR THE YEAR

Revenues	
Livestock	$105,800
Crops	83,700
Government Payments	3,600
Custom Work	6,600
Total Revenues	**$199,700**
Expenses	
Chemicals	$1,600
Feed	40,000
Fertilizer	20,000
Gas, Fuel, Oil	5,000
Insurance	5,000
Hired Labor	14,500
Rent	3,000
Repairs and Maintenance	5,000
Seeds	4,000
Supplies	3,000
Property Taxes	11,400
Utilities	2,000
Vet and Medicine	1,000
Machine Hire	2,000
Other	2,000
Depreciation	7,000
Interest	24,000
Total Expenses	**$150,500**
Net Farm Income (before taxes)	**$49,200**

Depreciation

Depreciation, although not a cash expense, is included on both the cash and accrual income statements as a way of spreading the cost of capital purchases over their useful life. Accelerated depreciation is frequently used for tax purposes. If this is the case, it should be noted accelerated depreciation is being used, because it could distort profitability.

Schedule F

The Schedule F tax form is often used as an income statement. Although the Schedule F can offer some valuable insight, it is not an income statement and should not be used as such. However, in some cases it can be used effectively if three to five years of information is provided and the business is in a stable operating mode with no major adjustments. Using a series of Schedule Fs

EXHIBIT 5 / ACCRUAL — ADJUSTED INCOME WORKSHEET

Net Cash Farm Income		**$49,200**
Gain/Loss from the sale of culled breeding livestock (purchased and raised)	+/-	(1,400)
Change in value due to change in quantity of raised breeding livestock	+/-	–
Increase in inventory (crop and livestock)	+	12,400
Decrease in inventory (crop and livestock)	-	–
Increase in accounts receivable	+	300
Decrease in accounts receivable	-	–
Increase in investment in crops	+	250
Decrease in investment in crops	-	–
Increase in supplies	+	–
Decrease in supplies	-	(700)
Increase in prepaid expenses	+	–
Decrease in prepaid expenses	-	(150)
Decrease in accrued expense (including interest, taxes, and rents)	+	900
Increase in accrued expense	-	–
Decrease in accounts payable	+	–
Increase in accounts payable	-	(1,800)
Accrual Adjusted Net Farm Income From Operations *(sum of above)*		**$59,000**
Gain/Loss on the sale of farm capital assets (except culled breeding livestock)	+/-	–
Gain/Loss due to change in general base values of breeding livestock	+/-	4,500
Accrual Adjusted Net Farm Income		**$63,500**

Parentheses indicate items that reduce net farm income and should be subtracted when calculating accrual-adjusted net farm income.

Source: Freddie Barnard, Agricultural Economics, Purdue University; David M. Kohl, Agricultural and Applied Economics, Virginia Tech.

as an income tax statement rests on the assumption shifting income and expenses will even out over the years.

Accrual-adjusted statements

The Farm Financial Standards Council recommends the use of an accrual-adjusted income statement. Ideally, a business' accounting records will produce an accrual statement; however, in practice, adjustments are made to the cash income statement (or Schedule F) to gain an accrual-adjusted income statement. **Exhibit 5** above illustrates how accrual adjustments are made. To convert cash income to accrual-adjusted income, we must look at changes

between the beginning-of-year and end-of year balance sheets. Adjustments to revenue include changes in inventories and accounts receivable. In the expense section, adjustments are made for changes in unused assets, prepaid expenses, accrued expenses, and accounts payable. Gains or losses on the sale of capital assets are also added or subtracted.

Tip: Cash flow projections for multiple years may be useful.

Revenues and expenses can come from a variety of sources in an agricultural business. Categories of revenues that are usually included in an income statement are:

- Realized cash revenues from the sale of agricultural commodities.
- Unrealized income from changes in the quantity or value of crop and livestock inventories.
- Realized capital gains from the sale of capital assets.
- Income from custom work and government payments.

Expense items included on the income statement vary with the type of business but include all operating expenses, interest and depreciation.

Cash flow projection

The balance sheet and income statement provide present and historical financial information that reflect past financial performance of a business. However, producers and lenders are often equally, if not more, interested in future performance. For this reason, a cash flow projection is a valuable financial tool.

A cash flow projection summarizes cash inflows and outflows over a given period. A projection can be prepared for the business, individual or a consolidation of both, similar to the balance sheet and income statement. The cash flow projection can be useful for preparing projected income statements and balance sheets and for determining:

- The need for operating lines of credit to cover cash flow deficits.
- Periods of excess cash when funds could be placed in income-earning assets such as money markets or the Future Payment Fund offered by Northwest Farm Credit Services.
- The need for changes in marketing or expenditure plans.
- The cash flow feasibility of a new investment.

- The cash flow in a transition year before the operation is fully engaged.

Components

While cash flow statement formats can vary, there are three basic components: cash inflows, cash outflows and operating finance activities.

Tip: It's important to remember, a cash flow projection is only as good as the information and assumptions used to prepare it.

Exhibit 6 on the next page illustrates a cash flow projection. Cash inflows include receipts from farm and nonfarm activities that are divided into relevant categories for the type of business being examined. Cash outflows include a detailed listing of cash expenses as well as principal and interest payments on term debt.

Note depreciation does not appear on the cash flow projection because it's not a cash expense and will not impact cash flow. The operating finance activities section outlines the net cash flows for each quarter along with the short-term borrowing needs, interest accrued and repayment of the line of credit.

Cash flow statements are prepared as follows:

Beginning Cash Balance + Cash Flows – Cash Outflows = Ending Cash Balance

Different scenarios

A one-year projection can be completed for different scenarios to examine price, cost and related impacts.

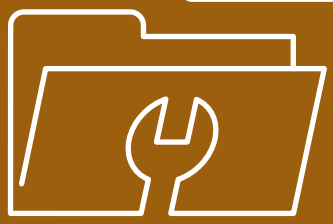
Cash flow projections for multiple years may also be useful when development is being done, in order to project cash needs prior to full production or adequate production to break even.

Different cash flow scenarios may include: "How would cash flow be affected if commodity prices were 50 cents lower than expected?" or "What is the impact of a 10 percent increase in fertilizer costs?" Testing these options helps identify how sensitive an operation or projected scenario is to changes in the market environment. It's important to remember a cash flow projection is only as good as the assumptions and information used to prepare it.

EXHIBIT 6 / CASH FLOW STATEMENT — PROJECTED YEAR

Cash Inflows	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
Cash Receipts					
Livestock	$29,000	$25,000	$26,000	$29,000	$109,000
Crops	25,000	8,000	–	51,000	84,000
Government Payments	–	4,200	–	–	4,200
Custom Work	2,400	1,400	1,300	2,000	7,100
Non-Farm Revenue	5,200	5,200	5,200	5,200	20,800
Capital Sales	–	–	–	–	–
New Term Borrowing	–	–	–	–	–
Total Cash Flows	**$61,600**	**$43,800**	**$32,500**	**$87,200**	**$225,100**
Cash Outflows					
Cash Expenses					
Chemicals	$600	$600	$400	$300	$1,900
Feed	13,000	8,000	8,000	13,000	42,000
Fertilizer	17,500	2,100	400	1,100	21,100
Gas, Fuel, Oil	600	2,100	600	2,100	5,400
Insurance	–	2,500	–	2,500	5,000
Hired Labor	3,000	4,000	2,500	5,000	14,500
Rent	3,000	–	–	–	3,000
Repairs and Maintenance	500	2,000	1,000	1,500	5,000
Seeds	4,200	–	–	–	4,200
Supplies	850	850	850	850	3,400
Property Taxes	5,700	–	5,700	–	11,400
Utilities	500	500	500	500	2,000
Vet and Medicine	250	250	250	250	1,000
Machine Hire	–	1,250	–	1,400	2,650
Other	500	500	500	500	2000
Family Living and Income Taxes	8,000	12,000	8,000	9,000	37,000
Capital Purchases	–	–	–	–	–
Term Debt Interest Payments	–	11,700	–	10,600	22,300
Term Debt Principal Payments	–	17,700	–	17,900	35,600
Total Cash Outflows	**$58,200**	**$66,050**	**$28,700**	**$66,500**	**$219,450**
Net Cash Flow-Surplus/(Deficit)	**$3,400**	**($22,250)**	**$3,800**	**$20,700**	**$5,650**
Beginning Cash Balance	**1,800**	**5,200**	**1,000**	**1,000**	**1,800**
Unadjusted Cash Balance	**5,200**	**(17,050)**	**4,800**	**21,700**	**7,450**
Minimum Balance Desired	**1,000**	**1,000**	**1,000**	**1,000**	**1,000**
Operating Loan Needed	**–**	**18,050**	**–**	**–**	**18,050**
Cumulative Operating Loan	**–**	**18,050**	**18,050**	**14,250**	**–**
Repayment of Operating Loan	**–**	**–**	**3,800**	**14,250**	**18,050**
Accrued Interest on Operating Loan*	**–**	**451**	**808**	**808**	**–**
Interest Paid on Operating Loan	**–**	**–**	**–**	**808**	**808**
Ending Balance	**$5,200**	**$1,000**	**$1,000**	**$6,643**	**$6,643**

** Assumes 10% annual interest rate on operating loans.*



FOR ADDITIONAL INFORMATION:

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Whether you are preparing your own statements, or analyzing those prepared by an accountant, this publication should provide a good basic understanding of how to prepare financial statements that are valuable both internally as a management tool, and externally for use with outside professionals.