Appraisal of Current Financial Position

With this program, the user can evaluate the potential operating loan needs of a farm business by taking a forward look at the business' income, expenses, and cash flow requirements. This quick method, however, is not intended to be a substitute for a more detailed cash flow.

APPRAISAL OF CURRENT FINANCIAL POSITION

Clear Entries

Version 1.1

Name: Bob Smith

Short-Cut Procedure for Calculating 2003 Operating Line of Credit
(Prior to new crop sales)

Estimated operating expenses - including feed & livestock purchases (Use last year as a guide)		$ 175,000
Family Living (expendables, medical, life ins., etc.)		45,000
Other		-
Estimated Cash Requirements		**$ 220,000**

Current Assets:				
Cash on hand or in checking			$ 30,800	
Cash in savings & time CD's			15,400	
Notes & Accounts Receivable			5,200	
Crops & Feed:				
Corn,	37,500	bu.	75,000	
Soybeans,	19,700	bu.	93,000	
	-	bu.	-	
Market Livestock:				
Hogs,	25	hd.	7,200	
Cattle,	-	hd.	-	
	-	hd.	-	
Prepaid Expenses			32,000	
Other, Non-farm			-	
Total Current Assets			**$ 258,600**	
Current Liabilities:				
Operating, short term notes, < 1 Yr.				$ 75,000
Accounts Payable w/ merchants and dealers				2,600
Accrued taxes - income, social security				12,800
Accrued interest				3,900
Principal due within 12 months:				
Intermediate term notes				2,200
Long term notes				3,500
Other				
Total Current Liabilities				**$ 100,000**

Working Capital (Current Assets - Current Liabilities)		**$ 158,600**	
Current Assets Not To Be Liquidated	(-)	15,400	
Less: "Adjusted working capital"	(-)		$ 143,200
Non-farm income	(-)		5,000
BALANCE REQUIRED TO BE FINANCED			**$ 71,800**

Prepared by Illinois FBFM Association in cooperation with the Department of Agricultural and Consumers Economics, University of Illinois at Urbana-Champaign.

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Required Input

General Information

Gives the name of the user or business and the year the analysis is conducted. The example on the previous page shows Bob Smith's entries for projecting the 2003 requirements.

Cash Needs

Determines the estimated cash requirements for the business.

Estimated Operating Expenses

One method for estimating operating expenses is to use the past year's operating expenses as a guide. Make adjustments for increases in costs of production due to inflation and changes in business operations, as well as decreases if the business plans to downsize. Be sure to include feed and livestock purchases in this amount. Bob entered $175,000. If using cash expense, be careful if there were substantial prepaid expenses or accounts payable.

Family Living

Items include expendables, medical payments, and life insurance premiums. Bob entered $45,000.

Other

If other cash needs exist for the operations that are not part of the operating expenses enter them here. Bob did not have any other cash needs.

Current Financial Status

Contains three sections: "Current Assets," "Current Liabilities," and "Working Capital." Entries in the first two sections are added to reach a total for each of those sections. "Working Capital," or the amount of money available to pay for cash needs, is simply the difference between Total "Current Assets" and "Total Current Liabilities."

Current Assets

Includes all business assets that are in inventory, cash and savings, prepaid expenses, or are owed to the business in the year that the analysis is being done. Bob entered: $30,800 for cash on hand; $15,400 for his current savings account balance; $5,200 for notes receivables; $75,000 value for 37,500 bushels of corn in inventory; $93,000 value for 19,700 bushels of soybeans in inventory; $7,200 for 25 market hogs and $32,000 for prepaid expenses. Bob's total current assets equal $258,600.

Current Liabilities

Includes all liabilities the business must pay in the year that the analysis is being done. Bob entered the $75,000 balance from his previous operating note, $2,600 he owes to the seed dealer, $12,800 for Income and Social Security taxes, $3,900 for accrued interest, $2,200 for the principal due on intermediate term notes and $3,500 for the principal due on long-term notes. Bob's total current liabilities equal $100,000.

Working Capital

The amount of money available to pay for the cash needs in this analysis ($258,600 - $100,000) which is $158,600. However, adjustments to the working capital may be made to represent assets that the user does not wish to liquidate in the year of the analysis. A savings account is an example of a current asset that a user may not want to use. Bob entered $15,400 for his "Cash in Savings & Time CD's," but does not want to use this money in 2003. So he entered $15,400 next to "Current Assets Not to Be Liquidated." This entry causes the "Adjusted Working Capital" to be decreased by $15,400 to $143,200.

Available Cash

The "Adjusted Working Capital" plus any "Non-Farm Income" that may be available. Bob's adjusted working capital is $143,200. He also has non-farm income of $5,000.

Balance Required to Be Financed

The amount of the operating loan needed for the business. This is the difference between "Cash Needs" and "Available Cash." Bob needs $220,000 and has $148,200 available ("Adjusted Working Capital" + "Non-Farm Income"). This means he may need an operating loan of $71,800.

Note: The ***"Balance Required to Be Financed*"** ($71,800) is an approximate value that is based on the cash needs of the operation. The value is not based on the repayment ability of the operation. A cash-flow projection of this operation may be used to generate a more detailed and precise analysis.