What’s Covered?

- Major topics since last exam
- 1) Farm Finance: Balance Sheets, Income Statements
- 2) Taxes, Business Arrangements and Farm Transfer
- Posted old Exams #2 over similar topics, plus answers
  - Sometimes material ordered differently
Balance Sheets

- Basic structure and how to read one
- Know what current, non-current assets and liabilities are (basic definitions) and be able to give simple examples of each
- Asset Valuation: Market vs Cost basis: be able to explain advantages & weaknesses, why you might want to use each
Depreciation

- What it is and why do it
- How to depreciate an asset by the three methods we covered
  - Straight line, Declining balance, Tax table
    - Problem with declining balance and salvage value
  - Tax depreciation and section 179 depreciation
- Think Breaks, Problem Sets, Old Exams
Balance Sheets

- Liquidity and Solvency: basic definitions, How are they assessed/measured?
- Know how to calculate and interpret ratios: Current Ratio, Debt to Asset, Equity to Asset and Debt to Equity Ratios
- Basic idea of what's “typical” in Midwest crop/livestock farming, why some are low and some are high
Income Statement

- Basic structure and how to read one
- Examples of cash and non-cash revenues and costs (accounts receivable, inventory changes, depreciation recapture vs. depreciation and accounts payable)
- Why farms may want to do accrual adjustments of income statement
  - Move costs/revenues to season when grown
Income Statement

- Know how to calculate and interpret
  - Net Farm Income (Accrual Adjusted NFI)
  - (Rate of) Return on Assets
  - (Rate of) Return on Equity
  - Operating Profit Ratio/Profit Margin
- Think Breaks/class notes, Problem Sets, old Exams for examples
- Basic idea of what’s “typical” in Midwest crop/livestock farming
Taxes

- Focus on the issues that stay the same, not the details that vary
- Our focus: Income, self-employment, capital gain, gift taxes
- Basics of how these work and pertain to farmers
  - Revenue, Schedule F costs, depreciation and depreciation recapture, capital gains
  - Tax advantages of section 179 depreciation and cash versus accrual accounting
Taxes and Farm Transfer

- How calculate gain? (= Sale Price – Basis)
- What triggers recognizing gain?
  - Sell/buy or give/receive assets???
  - Contribute to or remove from Partnership, LLC, Corporation???
- Why does Basis change?
  - Death, depreciation, sale, gift???
- Gift taxes: what triggers and who pays?
Business Arrangements and Asset Transfers

- Types of Business Arrangements
  - Sole proprietor, partnership, corporation (C or S), limited liability company (LLC)

- Main differences among them
  - Establishment: how do you form one?
  - Management: who makes decisions?
  - Taxation: how does it deal with income taxes and does it trigger recognition of gain?
  - Liability: are personal assets at risk?
Final Topics

- Beginning Business Arrangements
  - Some basic “words of wisdom” for beginning farmers
  - What are some typical arrangements for those just starting out and how do they begin farming?

- Let’s Talk: Dairy Farming in WI

- Inelasticity in Agriculture
  - Great for true/false or short answer
Exam Preparation

- Class overheads and reading materials put on class web page
- For quantitative topics: Think Breaks and Problem Sets are good examples
- What to expect?
  - Old exams as examples
  - Short answer and problems to work
- Call/email if you have questions