

Exam #2 Review

AAE 320

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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