

Paniolo Marketing

Enterprise Costs & Returns, Breakeven, and Risk

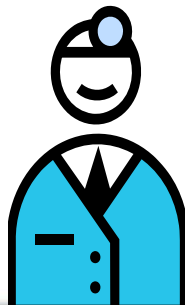


John Hewlett
Jeff Tranel

SCHEDULE F (Form 1040) - Profit or Loss From Farming		2011
Part I Farm Income - Cash Method		
a	Qualified sales of livestock and other resale items	1a
b	Sales of livestock and other resale items not reported on line 1a	1b
c	Total of lines 1a and 1b	1c
d	Cost of other sales of livestock or other items reported on line 1c	1d
e	Subtotal line 1d from line 1c	1e
2a	Specified sales of products you raised	2a
b	Costs of products you raised not reported on line 2a	2b
c	Depreciable distribution (Form 1099-DA), taxable amount	2c
3a	Agricultural program payments - taxable amount	3a
3b	Community Capital Corporation (CCC) loans - required under election	3b
4	CCC loans forgiven - taxable amount	4
5	Disaster insurance proceeds and federal crop disaster payments	5
a	Amount received in 2011 - taxable amount	5a
b	Amount received from 2010	5b
7a	Specified custom hire (contract work) income	7a
7b	Custom hire income not reported on line 7a	7b
8a	Specified other income	8a
8b	Other income not reported on line 8a	8b
9	Gross income: Add amounts in the right column (lines 1c, 2a, 2b, 3a, 4, 5a, 5b, 7a, 7b, 8a, 8b, and 9b)	9

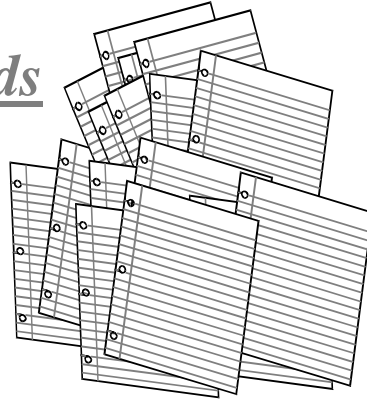


GOT financial health?



Determining Your Financial Health: HOW?

× Financial Records



Components of a Complete Record System

1. Cash transactions
2. Physical inventories
3. Financial inventories
4. Financial statements
5. Production records
6. Labor and machinery records
7. Family accounts and non-farm business records
8. Records summaries



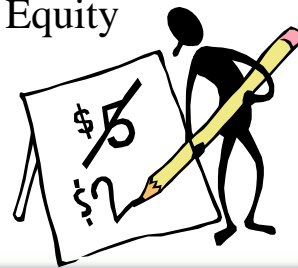
Determining Your Financial Health: HOW?



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Complete Financials Required

- Beginning and Ending Balance Sheets
- Cash Flow Statement
 - (*Statement of Cash Flows*)
- Accrual Adjusted Income Statement
- Statement of Changes in Owner Equity

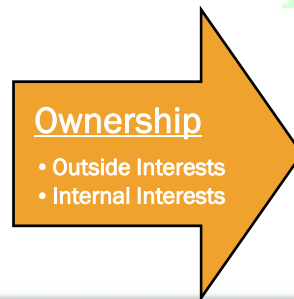
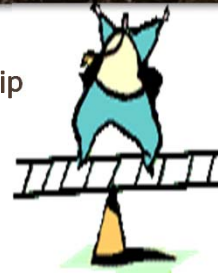


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Financial Statements

✘ Balance Sheets

- + Describe things of value and their ownership
- + Show values at a point in time (inventory), thus can be used to show changes over longer periods of time
- + Shows: $\text{Assets} = \text{Liabilities} + \text{Owner Equity}$



Financial Statements

✘ Cash Flow Statement

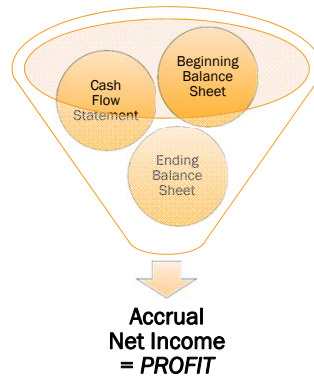
- + Documents changes in cash balances over the period (inflows/outflows)
- + Traditionally for agriculture this statement will show a month by month account



Financial Statements

× Accrual Income Statement

- + Shows all changes in cash for the period
- + Shows all changes in non-cash accounts over the period
 - × *Revenue* items like increases in inventories, etc.
 - × *Expense* items like depreciation, accrued interest, accrued tax liabilities, etc.
- + Shows accrual net income or profit for period



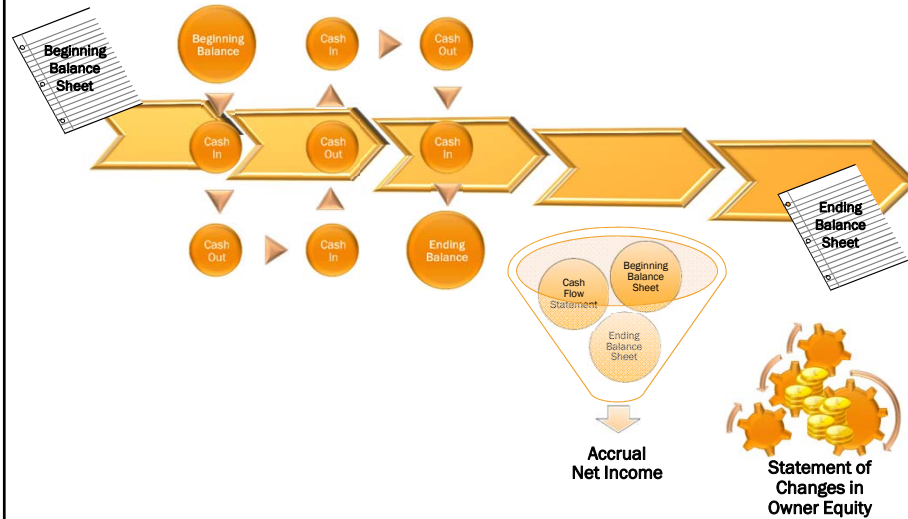
Financial Statements

× Statement of Changes in Owner Equity

- + Shows impacts of changes described by the income statement on *equity position*
- + Also documents any withdrawals or contributions of equity over the period



Determining Your Financial Health: HOW?



Adobe Flash Player 9

Introduction Enter Data Financial Statements Ratios Credit Scoring **Family Living, Revenues, Expenses**

Balance Sheet		Assets		Liabilities		Income Statement - Accrual Adj.	
	Beginning	Ending	Beginning	Ending			Income
Cash on Hand	25,000	57,831	Accounts Payable (Exp)	0	0	Cash Income (Net of cull livstk sales)	\$609,453
Crops Held for Feed (Exp)	0	0	Accrued Interest (Exp)	12,540	11,909	Non-Cash Income Adjustments	0
Crops Held for Sale (Inc)	200,000	200,000	Current Principal	11,909	12,559	Non-Cash Income (Raised Brds Livstk)	0
Market Livestock (Inc)	0	0	Other Current Liability (Exp)	10,000	10,000	Capital Gain/Loss on Breeding Livstk (Net)	0
Other Current Assets (Inc)	15,000	15,000	Short Term Notes (Exp)	0	0	Gross Revenue	\$609,453
Invest Growing Crops (Exp)	0	0	Def. Tax on Current Assets	0	0	Cash Expense (Excluding Interest)	-444,913
Buys & Priced Exp. (Exp)	10,000	10,000	Operating Loan Carryover	0	0	Non-Cash Feed Inventory Adjustment	0
Total Current Assets	250,000	282,931	Total Current Liab.	34,449	34,449	Other Non-Cash Non-Interest Expense	0
Non-Current Assets			Non-Current Liabilities			Depreciation (Land, Bldgs, Equip.)	-34,500
Mach. & Equipment	325,000	292,500	Pin. on T.D. & C.L.	255,399	242,840	Total Operating Expense	-479,413
Breeding Livestock	0	0	Def. Tax on Long Term Assets	0	0	Cash Int. Exp. - T.D. & C.L.	12,540
Real Estate (Land, Bldgs, Impr)	1,040,000	1,039,000	Total Business Liab.	289,947	277,299	Cash Int. Exp. - Operating	7,261
Total Business Assets	1,815,000	1,813,331	Business Net Worth	1,325,153	1,336,043	Non-Cash Interest Expense	(651)
			Change in Equity From Beginning to End of Year		10,890	Total Expense	-498,563
						Net Business Income From Operations	110,890
						Net Business Income	110,890
						Income-SS-Def. Tax-Cash & Non-Cash	0
						Net Income	\$110,890
							Accrual
						Statement of Owner Equity	
						Beginning Net Worth (Cost/Mkt)	1,325,153
						Net Income	+ 110,890
						Non-Business Cash Inflows	-
						Owner Withdrawals (Cash)	- 100,000
						Asset Valuation Changes/Cont./Distrib.	0
						Calculated Ending Net Worth	1,336,043
						Reported Ending Net Worth (Cost/Mkt)	1,325,153
						Discrepancy	(60)

Cash Flow Statement		Inflows		Outflows	
Crop Sales & Net Insurance Payments	579,800	Cash Expenses	No Interest >	444,913	
Mkt & Cull Livestock Sales	0	Other Cash Business Outflows/Expense	0	0	
Livstk. Secondary Product Sales	0	Cash Int. Exp. - T.D. & C.L.*	12,540		
Government Payments	29,945	Cash Int. Exp. - Operating	7,261		
Other Cash Business Inflows/Income	0	Loan Prin. Payments - T.D. & C.L.	11,909		
Operating Loan Proceeds	50%	Breeding Livestock Asset Purchases	0		
Loan Proceeds Capital Assets	0	Mach. & Equip. & Real Estate Purchase	0		
Non-Business Inflows/Revenue	0	Owner withdrawals	100,000		
Other Nonfarm Inflows	0	Cash Taxes Paid (Income & SS)	0		
Other Nonfarm Inflows	0	Other Cash Outflows (Not Expenses)	0		
Total Cash Inflows	\$818,910	Subtotal	\$578,622		
		Operating Loan Prin. Payments	\$207,457		
		Total Cash Outflows	\$784,079		
		Annual Net Cash Flow (never < zero)	\$7,831		

Mouse Over for Help

Owner Withdrawals: \$100,000

Nonfarm Inflows #1: \$0

Nonfarm Inflows #2: 0

Percent Crop Revenue: 100%

Percent Livestock Revenue: 100%

Percent Operating Expenses Borrowed: 50%

Percent Crop Cost of Production: 100%

Percent Livestock Cost of Production: 100%

Percent Government Payments: 100%

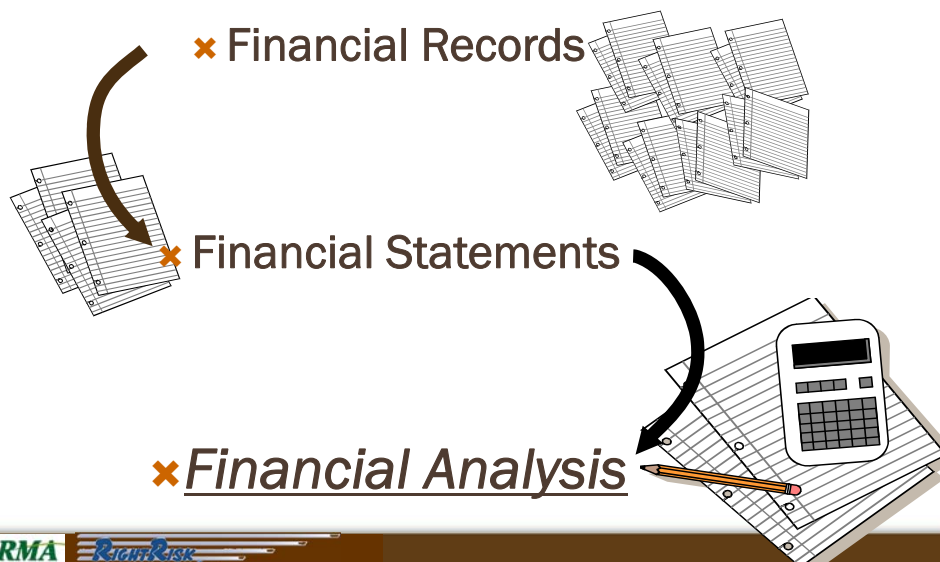
Reset Print Cash Income Toggle Off/On Deferred Taxes Off/On Income Tax Off/On

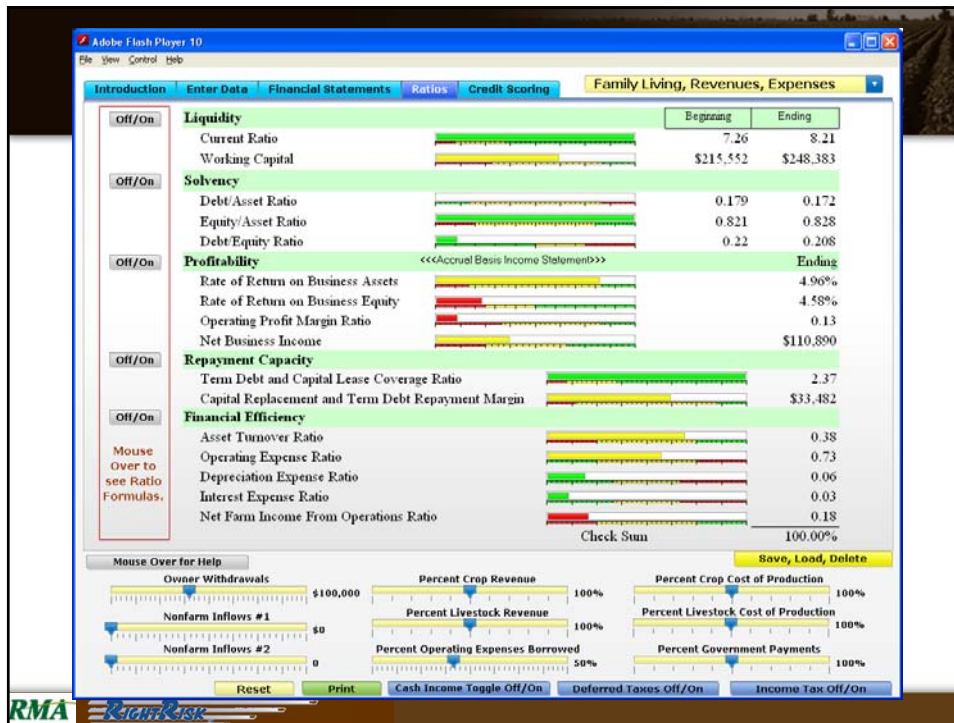


Topics Examined With RDFinancial

- Owner Withdrawals
- Non-business income
- Government Payments
- Capital asset purchase
- Cost of Production
- Asset revaluation
- Debt Load (asset and liability structure)
- Risk Protection Tools (Insurance)
- Non-cash expense (not depreciation)
- Non-cash income
- Contributed capital
- Distributed capital

Determining Your Financial Health: HOW?





Parting Comment

Do not risk the future of your operation (family and business) with frustration over preparing detailed financial statements.

Just do it!





Enterprise Profitability

- Whole-farm profitability is derived from *enterprise profitability*
- One enterprise may be profitable but another may have only marginal profitability or may have costs greater than returns
- May be defined as returns greater than the sum of ALL costs:
 - Cash and non-cash (e.g. depreciation)
 - Actual and imputed (e.g. unpaid family labor)
 - Variable and fixed (ownership costs)



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Enterprise Profitability cont.

- Estimates require information from past financial statements or records
- Estimates allow calculation of break even:
 - Breakeven price
 - Breakeven quantity
- Can help management decide where to make adjustments in the crop or livestock mix



RMA *Risk*

Determining Your Financial Health: Summary

- Business financial performance analysis is important to the long run viability of agricultural businesses
- A complete set of financial statements allows for adequate analysis
- Profitability is the key to survivability
- Lack of financial analysis exposes agricultural production businesses to unnecessary risk
- RD Financial is a RightRisk tool to get you started with financial analysis



Enterprise Risk Analyzer

General Inputs

Enterprise Titles	Enterprise Description	Number of Units	Enterprise Units (ac/ha/cow)
Enterprise #1			
Enterprise #2			
Enterprise #3			
Enterprise #4			
Enterprise #5			

Stochastic Elements	Estimate	Yield per Enterprise Unit	Units (bu/ton/cow)	Price per Unit	Total Operating Costs per Enterprise Unit	Expected Revenue (most likely)
	Minimum					
	Most Likely					\$ -
	Maximum					
	Minimum					\$ -
	Most Likely					
	Maximum					
	Minimum					\$ -
	Most Likely					
	Maximum					
	Minimum					\$ -
	Most Likely					
	Maximum					
	Minimum					\$ -
	Most Likely					
	Maximum					



Enterprise Risk Analyzer

Schedule F Income

Line	Description	Amount
1a	Specified sales of livestock and other resale items	
1b	Sales of livestock and other resale items not reported on line 1a	
1c	Total of lines 1a and 1b	
1d	Cost or other basis of livestock or other items reported on line 1c	
1e	Subtract line 1d from line 1c	
2a	Specified sales of products you raised	
2b	Sales of products you raised not reported on line 2a	
2c	Cooperative distributions (Form(s) 1099-PATR) - taxable amount	
2d	Agricultural program payments - taxable amount	
2e	Commodity Credit Corporation (CCC) loans reported under election	
2f	CCC loans forfeited - taxable amount	
2g	Crop insurance proceeds and federal crop disaster payments	
2h	Amount received in 2011 - taxable amount	
2i	Amount deferred from 2010	
2j	Specified custom hire (machine work) income	
2k	Custom hire income not reported on line 2j	
2l	Specified other income	
2m	Other income not reported on line 2l	
2n	Gross income. Add amounts in the right column (lines 1a, 2a, 2b, 2c, 2d, 2e, 2f, 2g, 2h, 2i, 2j, 2k, 2l, and 2m)	



Enterprise Risk Analyzer

Schedule F Expenses

Line	Description	Amount
10	Car and truck expenses (see instructions) Also attach Form 4562	
11	Chemicals	
12	Conservation expenses	
13	Custom hire (machine work)	
14	Depreciation and section 179 expense	
15	Employee benefit programs other than on line 2	
16	Feed	
17	Fertilizers and lime	
18	Freight and trucking	
19	Gasoline, fuel, and oil	
20	Insurance (other than health)	
21	Interest	
21a	Mortgage (paid to banks, etc.)	
21b	Other	
22	Labor hired (less employment credits)	
23	Pension and profit-sharing plans	
24	Rent or lease	
24a	Vehicles, machinery, equipment	
24b	Other (land, animals, etc.)	
25	Repairs and maintenance	
26	Seeds and plants	
27	Storage and warehousing	
28	Supplies	
29	Taxes	
30	Utilities	
31	Veterinary, breeding, and medicine	
32	Other expenses (specify)	
32a		
32b		
32c		
32d		
32e		
32f		
33	Total expenses. Add lines 10 through 32f.	
34	Net farm profit or (loss). Subtract line 33 from line 9.	



Enterprise Risk Analyzer

Beginning Schedules & Ending Schedules

Schedule L - Real Estate

Owned	Percent Owned	Date Acq	Acres	Cost or Basis	Annual Dep	Accum Dep	Book Value	Estimated Market Value
Land								
Buildings								
Improvements								
Houses								
Summary:								
Total Acres								
Total Cost or Basis								
Total Annual Depreciation								
Total Accumulated Depreciation on R.E.								
Total Book Value of Real Estate								
Total Estimated Market Value of Real Estate								

Lesses and Rented Land

Description / Landlord	Type of Lease	Date Expires	Acres	Annual Cash Rent	Current Rent/Less Due	Accrued Rent/Less Payments

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Enterprise Risk Analyzer

Enterprise Allocator Farm Revenue

FARM REVENUE

	B1 - one	B2 - two	B3 - three	B4 - four	B5 - five	Amount Unallocated
FARM REVENUE						
Gain/Loss on sales of livestock and other resale items						
Specified sales of products you raised						
Sales of products you raised not reported on line 2a						
Cooperative distributions (Form(s) 1099-PATR) - taxable amount						
Agricultural program payments - taxable amount						
Commodity Credit Corporation (CCC) loans reported under election						
CCC loans forfeited - taxable amount						
Crop insurance proceeds and federal crop disaster payments						
Amount received in 2011 - taxable amount						
Amount deferred from 2010						
Specified custom hire (machine work) income						
Custom hire income not reported on line 7a						
Specified other income						
Other income not reported on line 2a						
TOTAL FARM INCOME - CASH						
Non-cash Income						
Farm Income - Non-cash Adjustments						
Crops Held for Sale NOT Fed - Increase (Decrease)						
Livestock Held For Sale - Increase (Decrease)						
Cost of Livstck Held for Sale Adj. (Beginning - Ending)						
Hedging Accounts - Increase (Decrease)						
Accounts Receivable - Increase (Decrease)						
Government Payments Receivable - Increase (Decrease)						
TOTAL NON-CASH INCOME ADJUSTMENTS						
GROSS FARM REVENUE						

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Enterprise Risk Analyzer

Enterprise Allocator Farm Cash Expenses

						81 - one	82 - two	83 - three	84 - four	85 - five	Amount Unallocated
FARM REVENUE											
FARM EXPENSES											
38	Farm Expenses - Cash										
39	Car and truck expenses (see instructions) Also attach Form 4562										
40	Chemicals										
41	Conservation expenses										
42	Custom hire (machinery work)										
43	Depreciation and section 179 expense										
44	Employee benefit programs other than on-line 2										
45	Feed										
46	Fertilizers and lime										
47	Freight and trucking										
48	Gasoline, fuel, and oil										
49	Insurance (other than health)										
50	Interest										
51	Mortgage (paid to banks, etc.)										
52	Other										
53	Labor hired (less employment credits)										
54	Pension and profit-sharing plans										
55	Rental/lease										
56	Vehicles, machinery, equipment										
57	Other (bond, animals, etc.)										
58	Repairs and maintenance										
59	Seeds and plants										
60	Storage and warehousing										
61	Supplies										
62	Taxes										
63	Utilities										
64	Veterinary, breeding, and medicine										
65	Other expenses (specify)										
66											
67											
68											
69											
70											
71	TOTAL FARM EXPENSES - CASH										
72											



Enterprise Risk Analyzer

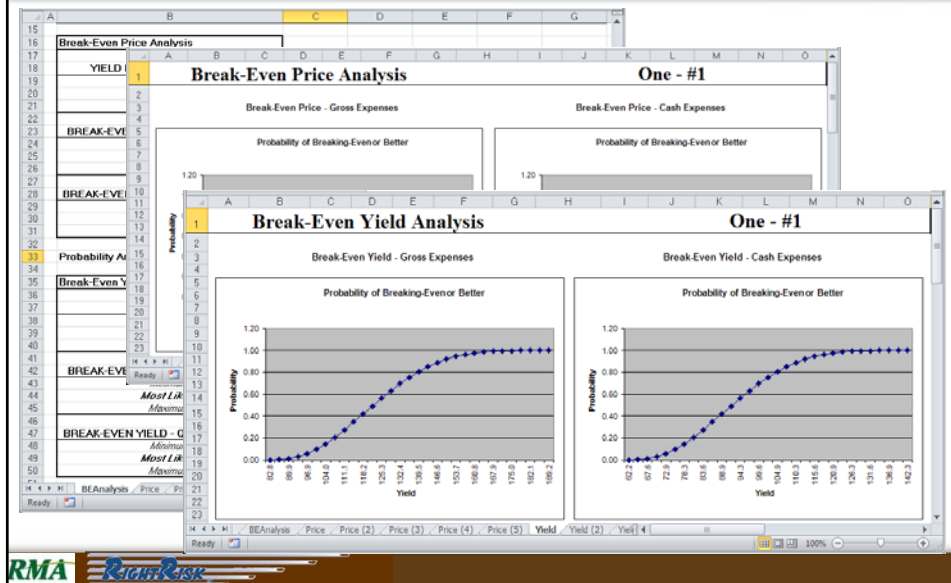
Enterprise Allocator Farm Non-cash Expenses

						One - 81	Two - 82	Three - 83	Four - 84	Five - 85	Am Unalloc
Farm Expenses - Non-cash Expense Adjustments											
74											
75											
76	Depreciation Expense (average of beginning and ending)										
77	Supplies & Prepaid Expenses - Decrease (Increase)										
78	Investment in Growing Crops - Decrease (Increase)										
79	Crops Held for Feed NOT for Sale - Decrease (Increase)										
80	Accounts Payable - Increase (Decrease)										
81	Short Term Notes Payable - Inc (Dec) - Net Am Op Loan										
82	Accrued Interest - Increase (Decrease)										
83	Acc. Prop. P.E., Payroll Taxes - Increase (Decrease)										
84	Accrued Lease Payments - Increase (Decrease)										
85	Owner Labor										
86	Management (bonus)										
87	TOTAL NON-CASH EXPENSE ADJUSTMENTS										
88											
89	GROSS FARM EXPENSES										
90											
91											
92											
93	NET FARM INCOME FROM OPERATIONS										
94											
95											
96											
97											
98											



Enterprise Risk Analyzer

Breakeven Analysis



eRightRisk
Brought to you by RightRisk, LLC

Home RightRisk, LLC is a premier organization helping today's and tomorrow's agricultural firms and farm and ranch families better understand their problems associated with:

Who We Are

- Financial Risks
- Market Risks
- Production Risks
- Legal Risks
- Human Risks

Educational Programs

Consulting

Research RightRisk, LLC has offices in Colorado, Wyoming and Arizona giving our professional staff easy access to locations around the world.

Members Only Our professional staff consists of members with over 20 years of experience in education, consulting with individual farmers, ranchers, small business owners, farm families, and policy decision-makers, and research. They have university appointments with extension, teaching, and/or research responsibilities. Collectively, members of RightRisk, LLC have conducted educational programs in more than 30 U.S. states, and worked with more than 7,000 farm and ranch families.

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The RightRisk Mission:
RightRisk helps decision-makers throughout the world discover innovative and effective risk management solutions.

How much risk is right for you...
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Practice Session

- Risk Preference Calculator
- RDFinancial
- Enterprise Risk Analyzer
- General Risk Management Questions
- More. . .

