



Balance Sheet Basics: Financial Guidance and Insight

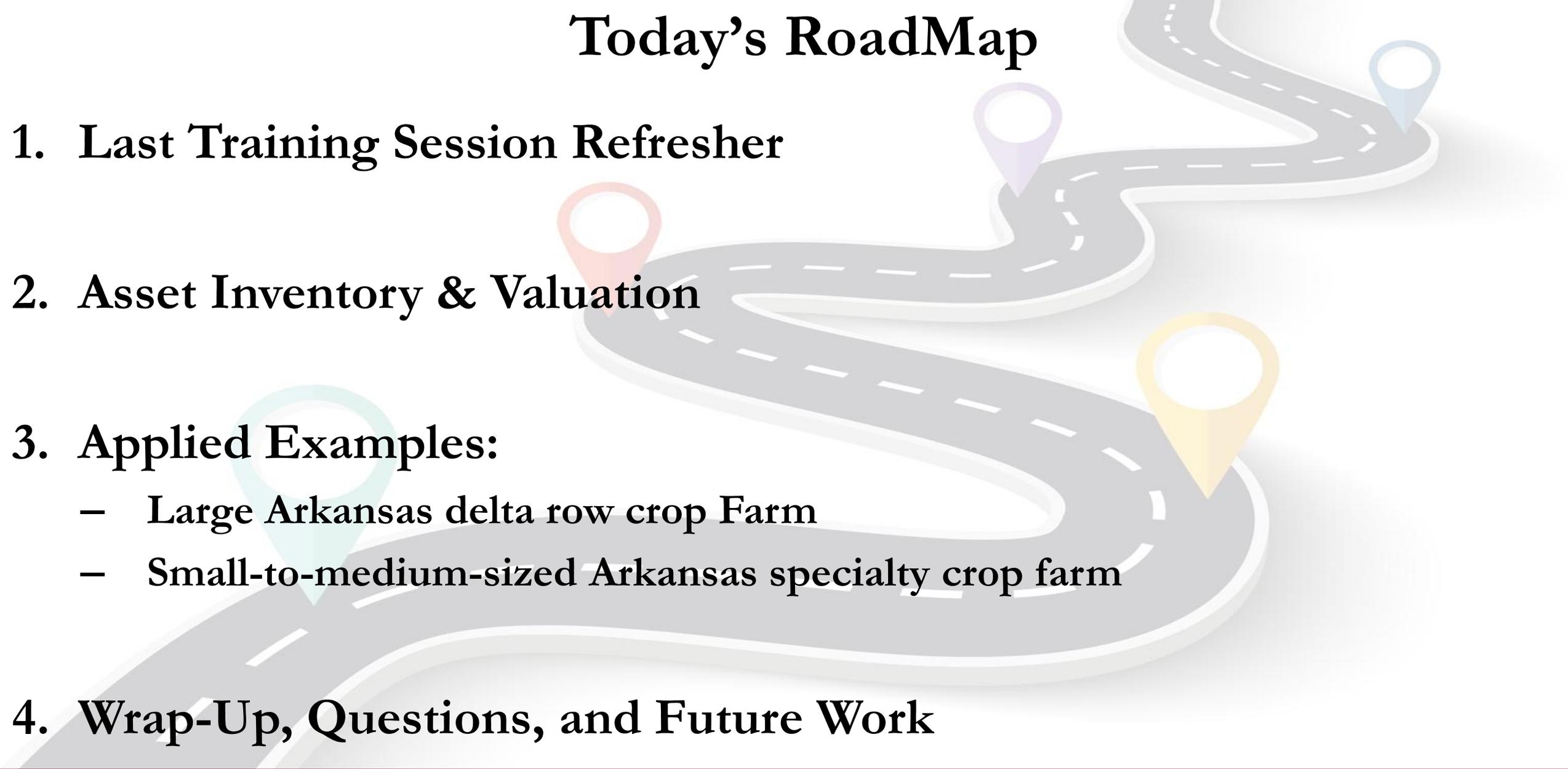
Distressed Borrowers Assistance Network (DBAN) Cooperators Training

January 27, 2026, 1:00pm

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Today's RoadMap



1. Last Training Session Refresher
2. Asset Inventory & Valuation
3. Applied Examples:
 - Large Arkansas delta row crop Farm
 - Small-to-medium-sized Arkansas specialty crop farm
4. Wrap-Up, Questions, and Future Work

Last Training: Refresher

Recall last training on December 18, 2025:

Major Topics:

- How to read and structure a balance sheet
- Liquidity, solvency, and net worth
- Using ratio analysis and realistic benchmarks, consistent with FFSC guidelines.

This training:

How a balance sheet behaves under market shocks and common asset valuation issues.





Asset Inventory & Valuation – Getting it *Right*

Asset Inventory: Does it Really Matter?

- Short answer, YES!

Valuing Asset Inventory:

- Treat your balance sheet as a *tool*, not **just** paperwork
- When reviewing financial ratios, ask yourself: “Is everything I own recorded?”
- Rule of thumb: If something can be sold, borrowed against, or insured, **it belongs on the balance sheet**

Asset Accuracy:

- Borrowing capacity, liquidity ratios, and stress-test outcomes.
- Inaccurate assets *can* lead to incorrect decisions even when ratios are calculated correctly.

How does this play out in real life?

- Farmer John believes they are overleveraged b/c their debt to asset ratio is high ($>60\%$)
 - However, their equipment values are grossly understated
- Farmer Jessica believes her liquidity is weak ($CR < 1.3$)
 - However, they never listed stored grain or pre-purchased inputs.



Balance Sheet Problems are not math; they are often inventory problems!

What can be done to improve asset valuation?

- Commit to an **annual inventory review** (separate from tax preparation).
 - **Be sure to update asset values before** lender meetings, major capital purchases, and expansion/restructuring conversations.

In the previous examples, how does that *actually* happen?

- We talk often about “under valuing assets” but never discuss how this happens.

Common mistakes (these are just a few examples)

- Tax depreciation is mistaken for market value
- Equipment values never updated after market shift or are ‘conservative’ estimates
- Only “primary” equipment is listed
- Stored assets are excluded because its ‘already sold’
- Inventories are not properly reconciled at the end of the year
- Prepaid inputs are viewed as expenses, not assets.



The Cost of Inaccurate Asset Values

Undervalued assets can...

- Weaken on-paper solvency
- Reduce negotiation power with lenders
- In extreme cases, trigger unnecessary on-farm restructuring



Overvalued assets can...

- Mask financial position risk
- Delay corrective action (e.g., restructuring)

In practice, this can lead to.....

- Undervalued land, which can cause a lender to:
 - Cap operating credit
 - **Require additional collateral*******
- Overvalued equipment can lead to:
 - Delay in selling (or restructuring)
 - Sticker shock when liquidation is not as strong as expected.

What Can be Done?

- Use value **ranges**, not a single point. (help with stress test)
- Reconcile differences between tax basis, insurance values, and current market estimates

Commonly Missed (or Misstated) Assets

Common “forgotten” assets:

- Stored grain
- Prepaid Inputs (e.g., seed or chemicals)
- Older (or secondary) equipment
- Irrigation systems and/or on-farm wells
- Buildings (not incl'd in land value)
- Livestock inventory

In practice:

- Prepaid inputs last fall never appear → Working Capital understated
- Irrigation system fully depreciated but still worth \$\$\$\$ → Assets understated

“if it has resale value, list it!”

What can be done?

- Make it a point to walk the farm at least once per year, and ask:
 - “What could be sold?”
 - “What would/could be insured?”



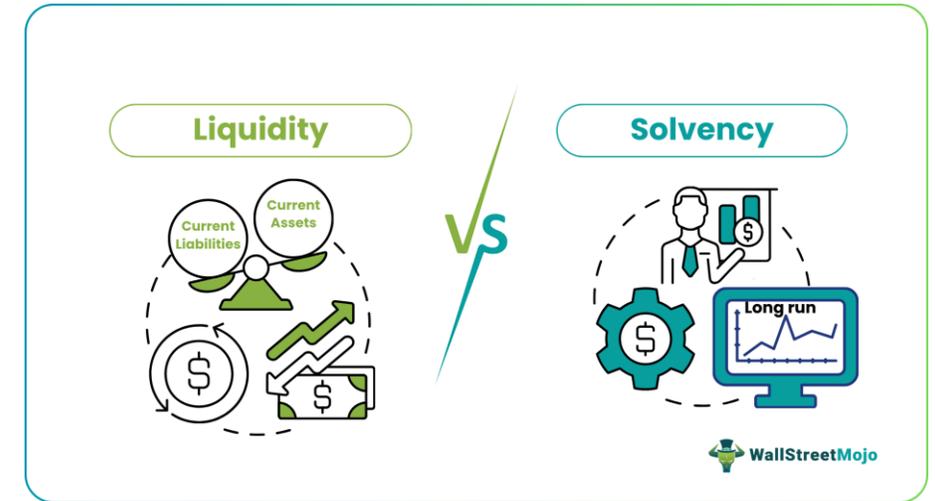
Correctly Classifying Assets: It Matters!!

Among others, incorrect classification can distort:

- Working capital (e.g., current ratio (CR))
- Liquidity and solvency (some cases)

Examples

- Listing pre-purchased inputs as equipment
 - Current assets are understated → CR is artificially low
 - Stored grain or seeds listed as “other assets” → hiding liquidity



“Don’t let accounting convenience drive classification!!”

Correctly Valuing Assets



What would this sell for in today's market?

- Use a **fair market value**
 - What are similar items bringing at auction?
- Think before using purchase price, book value, or tax value

Examples

- A combine purchased a few years ago might be worth more now.
- Inherited land's value is understated.

What can be done?

- Annual updates: stored grain/inputs and equipment
- Periodical updates (3-5 years): land, improvements, and buildings

Practical Valuation Methods



These are starting points and does not encompass all options

Grain: local cash bids (past year) * inventory on hand

Inputs: resale or replacement costs

Equipment: Dealer trade-in quotes, auction sales, comparable listings.

Land: Recent local sales, lender or professional appraisals.

Examples

- Checking local auctions can recalibrate equipment values, quickly.
- Talking with an equipment dealer can give an additional estimate (+ depreciation schedule).

Undervaluation, Collateral, and Stress-Tests

Asset Accuracy

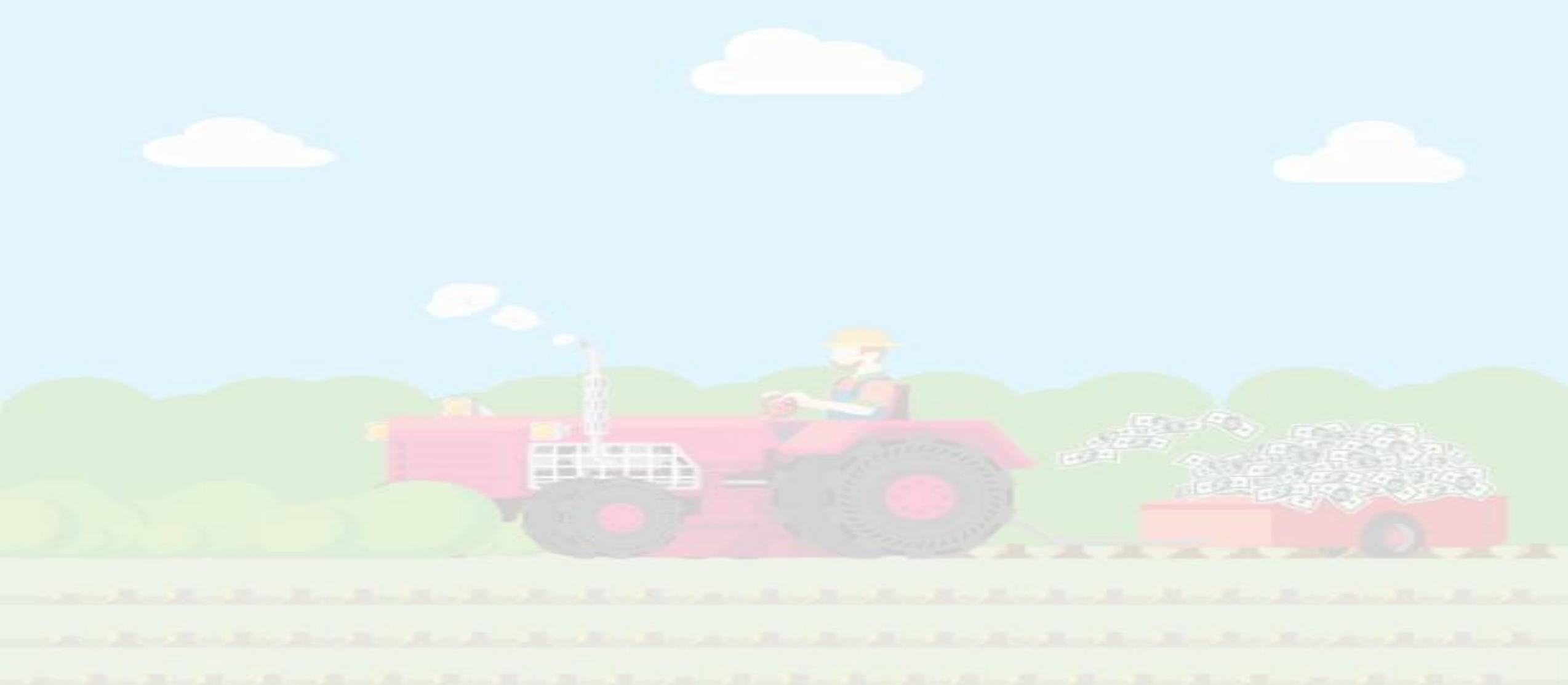
- Undervaluing → over-pledging collateral → reduced future borrowing flexibility.
- Collateral decisions today constrain options during downturns.
- Stress tests depend upon:
 - Starting asset values & liquidity quality (cash vs. inventory)

Practically

Small loan secured by high-valued equipment (asset is fully tied up)

Later financing needs are encumbered by fewer remaining assets.

Stress test appears catastrophic.....



Case Study Examples – How Shocks Impact Viability

Let's Switch Gears.....

- We are now going to take a deeper dive into some applied examples.
- In these examples, we analyze how common market 'shocks' impact a farm's balance sheet.
- Two cases: 1) 2,000-acre row crop farm, and 2) 80-acre specialty crop farm
 - Each example starts with a “healthy” balance sheet.

- **Please note:**
 - These examples are only scratching the surface
 - We do not analyze the income statement or statement of cash flows***

Farm Financial Standards Council (FFSC) Benchmarks

- **Current Ratio (CA/CL):** ≥ 2.0 strong | 1.3–2.0 caution | < 1.3 vulnerable
- **Working Capital / Gross Revenue:** $\geq 20\%$ strong | 10–20% adequate | $< 10\%$ vulnerable
- **Debt-to-Asset (TL/TA):** $\leq 30\%$ strong | 30–60% adequate | $> 60\%$ vulnerable

Case 1: 2,000-Acre Arkansas Row-Crop Farm

Setting the Stage

- 2,000 acres: 1,200 soybeans, 500 rice, 300 corn
- Land Tenure: 25% owned, 75% cash rent; moderate equipment line; disciplined prepay
- Marketing: modest forward sales; carries some grain into next marketing year
- Overall, they are in *good* financial shape

Case 1: Baseline Balance

CURRENT ASSETS	Market Value
Cash	\$320,000
Grain inventory	\$680,000
Accounts receivable	\$45,000
Prepays & supplies	\$155,000
Total current assets (CA)	\$1,200,000
<i>NONCURRENT ASSETS</i>	
Machinery & equipment (net)	\$2,050,000
Land	\$3,250,000
Total assets (TA)	\$6,500,000
<i>CURRENT LIABILITIES</i>	
Operating note	\$360,000
Accounts payable & accruals	\$110,000
Current portion term debt (CPLTD)	\$90,000
Total current liabilities (CL)	\$560,000
<i>NONCURRENT LIABILITIES</i>	
Intermediate term debt	\$820,000
Real estate debt	\$720,000
Total liabilities (TL)	\$2,100,000
Equity (TA – TL)	\$4,400,000

Case 1: Ratio Analysis and Benchmarking

- Working capital = $\$1,200,000 - \$560,000 = \$640,000$
- Current ratio = $1,200,000 / 560,000 = 2.14$ (Strong: ≥ 2.0)
- **Assume gross revenue \approx \$2.6M \rightarrow WC/GR \approx 25% (Strong: $\geq 20\%$)**
- Debt-to-asset = $2,100,000 / 6,500,000 = 32\%$ (Adequate: 30–60%)

Case 1: Operating Stress Shock (assumptions)

- Soybean price -15% on unpriced bushels; basis weakens modestly
- Corn yield -10% (localized weather)
- Rice expenses largely unchanged; interest $+1\%$ on operating note
- **Net cash draw to cover margins: $-\$260,000$**
- **Inventory revalued -8% (market reality at 12/31)**

Case 1: Post-Shock Balance Sheet: *What Happened?*

CURRENT ASSETS (changes)	
Cash	\$60,000 (↓\$260,000)
Grain inventory (revalued)	\$626,000 (↓\$54,000)
Accounts receivable	\$45,000
Prepays & supplies	\$155,000
Total current assets (CA)	\$886,000
Total assets (TA)	\$6,186,000
CURRENT LIABILITIES (unchanged)	
Total current liabilities (CL)	\$560,000
Total liabilities (TL)	\$2,100,000
Equity (TA – TL)	\$4,086,000

Case 1: Ratio Analysis (Post-Shock)

- Working capital = $\$886,000 - \$560,000 = \$326,000$
- Current ratio = $886,000 / 560,000 = 1.58$ (Caution: 1.3–2.0)
- Gross revenue falls to $\approx \$2.2\text{M} \rightarrow \text{WC/GR} \approx 15\%$ (Adequate: 10–20%)
- Debt-to-asset $\approx 2,100,000 / 6,186,000 = 34\%$ (Adequate)

Case 1: Another Shock

- Land value -15% (balance-sheet shock) and interest rates stay elevated.
- Land drops from \$3.25M to \$2.76M ($-\$487,500$)
- No immediate cash impact, **but** collateral cushion and refinancing terms tighten
- In this case, assume lender raises required liquidity floor and reduces advance rates

Case 1: Another Shock Cont.

KEY BALANCE-SHEET CHANGES	
Land (after -15%)	\$2,762,500
Total assets (TA)	\$5,958,500
Total liabilities (TL)	\$2,100,000
Equity (TA - TL)	\$3,858,500 (↓\$541,500 from baseline)
Current assets (CA)	\$886,000
Current liabilities (CL)	\$560,000

Case 1: Ratio Analysis (Another Shock)

- Debt-to-asset = $2,100,000 / 5,958,500 = 35\%$ (Adequate)
- Liquidity remains the binding constraint: CR 1.58 (Caution) and WC/GR $\sim 15\%$ (Adequate)
- In reality: more scrutiny and a higher required WC floor
- This can also work *for* you.....

Case 1: Key Takeaways and Insights

- ‘Good’ farms often lose flexibility first through liquidity, not solvency.
- **Action:** pause discretionary capital expenditures until $CR \geq 2.0$ and $WC/GR \geq 20\%$ again.
- **Action:** rebuild WC via tighter withdrawals, input discipline, and a marketing plan that protects downside.
- **Action:** pre-empt refinancing risk by re-amortizing where possible.
- A land valuation shock can tighten credit terms even if the farm stays ‘adequate’ on D/A (current). The concern is ‘*what comes next?*’

Case 2: Delta Specialty Crop Farm

- 80 acres Sweet potatoes and squash; direct + wholesale mix
- High labor share; rapid cash cycles; thin year-end working capital is common



- Goal: show that timing risk can sink otherwise profitable farms

Case 2: Baseline Balance Sheet

CURRENT ASSETS	
Cash	\$25,000
Accounts receivable	\$45,000
Inventory (pack/inputs)	\$60,000
Prepays & supplies	\$70,000
Total current assets (CA)	\$200,000
NONCURRENT ASSETS	
Equipment/infrastructure	\$400,000
Land	\$600,000
Total assets (TA)	\$1,200,000
CURRENT LIABILITIES	
Operating/seasonal line	\$105,000
Accounts payable & accruals	\$55,000
Total current liabilities (CL)	\$160,000
NONCURRENT LIABILITIES	
Term debt	\$490,000
Total liabilities (TL)	\$650,000
Equity	\$550,000

Case 2: Analysis (Pre Shock)

- Working capital = $\$200,000 - \$160,000 = \$40,000$ (thin)
- Current ratio = $200,000 / 160,000 = 1.25$ (Vulnerable: <1.3)
- Assume gross revenue $\approx \$700,000 \rightarrow WC/GR \approx 6\%$ (Vulnerable: $<10\%$)
- Debt-to-asset = $650,000 / 1,200,000 = 54\%$ (Adequate)

Case 2: Market Shock

- Timing shock: buyer payment delay (45 → 90 days) + harvest delay
- Payroll and packing costs continue; cash draw → \$35,000
- Accts. Receivable increases by \$35,000 (revenue earned, not collected)
- No change in equity yet, but the problem is **cash timing**

Case 2: Post-Shock Highlights

CURRENT ASSETS (changes)	
Cash	\$-10,000 (↓\$35,000)
Accounts receivable	\$80,000 (↑\$35,000)
Inventory	\$60,000
Prepays & supplies	\$70,000
Total current assets (CA)	\$200,000 (unchanged)
Total current liabilities (CL)	\$160,000
Working capital (CA – CL)	\$40,000 (unchanged, but liquidity quality worsened)

Case 2: Post Shock Analysis

- Current ratio remains 1.25 (Vulnerable), but risk increased because cash is negative
- Think about it! → Annual ratios can miss a liquidity crisis if cash timing is ignored
- What can be done: move to weekly cash tracking and a minimum cash-on-hand rule

Case 2: Another Shock (Labor)

- Cost shock + mitigation: **labor costs +15% for season**; build a cash buffer plan
- Assume additional short-term borrowing +\$25,000 (operating line) to cover payroll
- Then implement mitigation: raise cash buffer target and tighten receivable policy
- Net: CL rises; without pricing changes, vulnerability increases

Case 2: Labor Shock (Current Liabilities)

CURRENT LIABILITIES (changes)	
Operating/seasonal line	\$130,000 (↑\$25,000)
Total current liabilities (CL)	\$185,000
Current assets (CA)	\$200,000
Working capital (CA – CL)	\$15,000
Current ratio (CA/CL)	1.08

Case 2: Labor Shock Analysis

- Current ratio = 1.08 (Vulnerable)
- WC/GR falls further ($\approx 2\%$)
- Takeaway: specialty crop farms may need higher liquidity buffers relative to timing risk
- Management fix must include pricing/collections and cash reserves. Try not to just add more credit.

Case 2: Key Takeaways

- Key takeaway: specialty farms can struggle due to timing gaps; ‘profitability’ measures are not enough***.
- **Action:** set a minimum cash buffer (e.g., 4–6 weeks of payroll/packing costs).
- **Action:** tighten receivable terms, use deposits/contracts, and monitor accounts receivable weekly.
- **Action:** treat operating line draws as an early warning; do not normalize ‘rolling the line.’

- liquidity quality (cash today) matters more than year-end totals.

Conclusion and Future Work

Today, we covered:

- Importance of accurate asset valuation
- How market shocks can impact balance sheet quality, reemphasizing the importance of regular record-keeping habits.
- For DBAN cooperators, our goal is to give you a baseline to analyze financial statements and help highlight areas of improvement/concern.

Future Work

- Balance Sheet Pocket Guide
- Understanding a credit score and other financial statements
- Building fruitful relationships with Ag. lenders.

Please keep your eye out for these resources

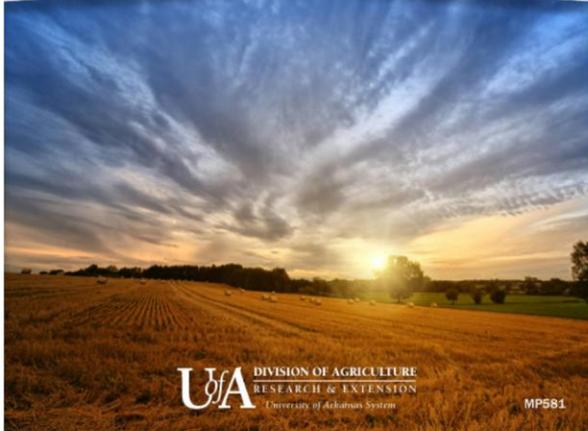
Other Available Resources

Phase 1: Starting the Farm Business



Growing Your Enterprise:

A Step-by-Step Guide to Launching a Farm Business



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MP581

Phase 2: Financial T.A. & Risk Management

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Agriculture and Natural Resources

Leveraging Enterprise Budgets to Calculate Breakeven Points

By: Ryan Lay, Assistant Professor - Agricultural Economics and Agribusiness; Brian Jensen, Professor - Agricultural Economics and Agribusiness; Isabelle Ryan, Program Associate - Agricultural Economics and Agribusiness.

Overview
Enterprise budgets are valuable resources to producers. They contain estimates of potential revenue, expenses, and earnings for an agricultural enterprise. An agricultural enterprise can be defined as any business that is primarily engaged in agriculture (e.g. a farmer that grows and markets rice or soybeans in Arkansas). Understanding the information within an enterprise budget and how to utilize it for farm planning is fundamental in on-farm decision-making. Consequently, an enterprise budget is based on one acre for one crop (one head in the case of livestock) in one year. Consider budgets as small feasibility studies helping make planting, purchasing, and marketing decisions wherein a producer can adjust prices, yields, rates, etc. to reflect their practice and current market conditions. Each budget is specifically tailored to a given production, input, and operation and summarizes the associated costs and revenues. These resources assist in estimating breakeven prices or yields and enterprise planning (hence the name "enterprise" budgets).

Components of an Enterprise Budget
An enterprise budget contains several pieces of information, all aimed at capturing current market conditions and crop-specific sequences of operations (IADA-CER 2024). Regardless of who developed the enterprise budget, it contains four important components: income (revenue), direct expenses (also known as variable or operating expenses), fixed (overhead) expenses, and profit (Wentoch and Bernhardt, 2022). Luckily, enterprise budget software, such as Excel spreadsheet, allow for quick and easy alternative calculations (Shah and Liu, 2022). The University of Arkansas hosts enterprise budgets tailored to Arkansas crops and practices, usually released in the fall before next year's crop. For instance, 2024 budgets for field crops planted in Spring 2024 have an expected release date of Fall 2023. For more information on enterprise budget software and best practices, contact your local Extension office or Breanna J. Watkins at bwatkins@uark.edu.

Income (Revenue)
The first budget item listed is revenue, or income. Income for field crops is calculated as the total quantity of units sold multiplied by the selling price per unit (see Figure 1). For instance, 60 bushels of conventional soybeans sold at \$130/bushel gives an expected revenue of

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Agriculture and Natural Resources

Financial Insight: Navigating Performance, Position, and the Balance Sheet

By: Ryan Lay, Assistant Professor - Agricultural Economics and Agribusiness; Bruce Anderson, Professor - Agricultural Economics and Agribusiness.

Financial Insight: Navigating Performance, Position, and the Balance Sheet
Financial health describes the state of a farm's monetary affairs. Understanding how financial health impacts a farm is important for informed decision-making, optimal allocation of resources and successful financing. This idea can be split into two conceptual financial positions and financial performance, each providing unique perspectives into the health of a farm business. Evaluation of a farm requires an understanding of all financial aspects by using multiple factors. These factors are the building blocks for evaluating a farm's financial health. An accurate record-keeping is imperative for the longevity of a farm business.

Financial Position
This concept refers to the financial health of a farm at a given moment in time. In accounting terms, financial position is the daily balance of assets, liabilities, and equity of a farm (Wentoch and Bernhardt, 2021). Practice does not include the past or future and only pertains to the present, it is a snapshot of a farm on a specific date. Furthermore, financial position refers to measures derived from the balance sheet, where the balance sheet is a snapshot of the

Financial health is described in the balance sheet as all assets owned by the farm and liabilities owed to others. Proper organization and updating are provide an objective measure of farm business growth, liquidity, solvency and the ability to withstand risk (Erickson and Shewmaker, 2019). The idea of "current" assets are assets that are cash or can be turned into cash in less than a year. Similarly, current liabilities are debts to be paid in a year or less (Farm Financial Standards Council (FFSC) 2022). In contrast, noncurrent assets have a useful life greater than a year while noncurrent liabilities are debt obligations not due for more than a year (FFSC, 2022).

Table 1 provides a brief overview of assets and liabilities included at the farm level. All four of these categories (current, non-current, assets and liabilities) are included in developing a farm's balance sheet. More details for those categories in the balance sheet are found in Table 2.

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Arkansas Crop Profit/Loss Calculator (Crop Year 2025)

County: Monroe

Crop: Rice

Practice: Irrigated

Would you like to input your own cost? No

Rental Agreement: Crop Share

Crop Share Input (Landlord Percentage %): 20

Expected Yield: 171.54 bushels/acre
Expected Price: \$6.13/bushel
Cost: \$992.94/acre
Breakeven Price: 202.41 bushels/acre
Breakeven Price: \$1.21/bushel

Net Returns for Irrigated Rice in Monroe County, Arkansas in 2025 (Crop Share - 20 %)

Note: The prices and yields are in green with prices provided in the leftmost column and yields provided in the rightmost column. The per acre cost listed in the table only contains operating expenses and does not include fixed costs (e.g., equipment lease, custom harvesting, and any other overhead). Costs come from the U of A Division of Agriculture.

	100	120	137	154	172	189	206	223	240	257
\$ 3.68	-609.57	-6038.52	-5959.47	-5739.42	-4406.43	-4436.38	-4308.34	-4338.29	-4206.24	-4236.19
\$ 4.29	-659.30	-5980.86	-5922.62	-4944.27	-4602.50	-4344.15	-4295.81	-4227.46	-4169.12	-4110.78
\$ 4.43	-6389.04	-6522.40	-6455.76	-6389.12	-6318.58	-6251.92	-6185.26	-6118.64	-6052.00	-614.84
\$ 5.52	-557.85	-4462.88	-4387.81	-4312.74	-4233.25	-4158.18	-4083.10	-4008.03	-3932.94	-3857.84
\$ 6.13	-447.69	-4404.32	-4329.95	-4257.58	-4189.31	-4121.04	-4052.76	-3984.48	-3916.20	-3847.92
\$ 6.74	-447.42	-4345.76	-4254.10	-4162.43	-4070.76	-3979.09	-3887.42	-3795.75	-3704.08	-3612.41
\$ 7.36	-4386.34	-4286.24	-4186.14	-4086.04	-3985.94	-3885.84	-3785.74	-3685.64	-3585.54	-3485.44
\$ 7.97	-4336.07	-4227.88	-4119.29	-4010.70	-3902.11	-3793.52	-3684.93	-3576.34	-3467.75	-3359.16
\$ 8.58	-4285.81	-4169.12	-4052.43	-3935.74	-3819.05	-3702.36	-3585.67	-3468.98	-3352.29	-3235.60
\$ 9.2	-4234.72	-4109.80	-3994.88	-3879.96	-3765.04	-3650.12	-3535.20	-3420.28	-3305.36	-3190.44

DISCLAIMER: This decision tool is intended for illustrative and educational purposes only. We do not guarantee any level of loss or profit.



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TENSION
ts System



Thank You!! Questions?

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AR Profit/Loss Calculator



National Cotton
Profit/Loss Tool

