

Assessing your liquidity

Use this planner to assess your working capital position.

Step 1: Look at current assets and liabilities to analyze their composition, quantity, quality, age and value

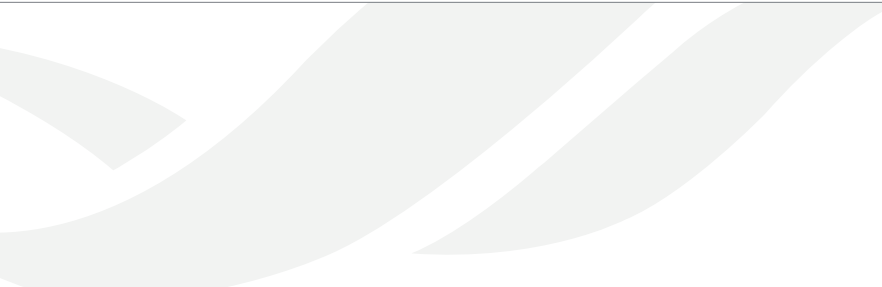
Consider:

- If current asset values seem reasonable
- How these amounts compare to historical years
- Farm operation's industry and timing in the production cycle (that is, when will each item be converted to cash?)
- If the business uses working capital in its daily operations
- If the business runs on cash. If you have no liquidity, your operating cycle is at risk.



Questions to ask

Current assets	Current liabilities
<p>Cash</p> <ul style="list-style-type: none"> • How much money do I have in my bank account today? <p>Accounts receivable</p> <ul style="list-style-type: none"> • What's owed to me today and why? • Are there agreed-upon payment dates and terms? • List all insurance coverage <p>Inventory</p> <ul style="list-style-type: none"> • What's the current state of inventory? (That is, volume or amount, grade, quality, size/weight, condition, age) • Do I have any existing contracts? Are there concerns with meeting contract requirements? (Consider details on pricing, delivery terms and possible penalties.) • What's the plan to market my product going forward? What are some alternatives, and are they realistic? <p>Pre-paid expenses</p> <ul style="list-style-type: none"> • Have I prepaid any goods or services for next year? 	<p>Accounts payable</p> <ul style="list-style-type: none"> • Is there an operating line? Are there any seasonal bulges? • What's the balance and limit? What type of payments do I make, and when? • Do I have any outstanding bills (land lease payments with retailers or suppliers)? If yes, how will I make the payment? • How many credit cards do I have, and what's the limit and balance on each? What type of payments am I making, and when? (Credit cards are NOT a source of working capital) • Are there any large personal expenses coming up within the year? (For example, tuition or a vacation) <p>Consider your current portion of long-term debt</p> <ul style="list-style-type: none"> • What payments do I have coming up? What are the amounts? When are they due? • Are current liabilities business payables or payables from the last operating cycle?



Step 2: Based on the information above, estimate your working capital position and identify the cause of any changes

Consider year-to-year fluctuations in:

- Long-term assets
- Long-term liabilities
- Net income
- Withdrawals and dividends, including intercompany or related-party advances or repayments
- Equity

Questions to ask

- Did my assets or liabilities increase or decrease? Why? Was this action deliberate or caused by something else? Do you expect this to continue?
- Did funds flow into the operation from profitability, off-farm income or other income outside the business, shareholder contributions or new loans?
- Did funds flow out of the operation from lack of profitability, living expenses, shareholder withdrawals or dividends?

Step 3: Based on working capital and current ratio calculations, determine if there is or will be a gap in working capital requirements based on when loan payments are due.

Focus on the timing of cash coming in and going out of the operation

- What's the trend in accounts receivable, inventory and accounts payable days?
- What's the size of the gap? (\$ amount)
- When will this gap develop, and will cash run out?

Questions to ask

- How will the increase/decrease in working capital for this period impact my working capital requirements next year? How will I manage through that?
- What are my operating line limits? If current liabilities continue to increase, will I hit any limits?
- Will increases to production levels or a change in sales require additional operating funds compared to the past?
- How will new financing impact operating requirements for the operation?
- Do I make loan payments on time? Do I have any receivables that I could collect?
- How are my relationships with suppliers? Have any changed their financing terms?
- Based on my plan, is there a point where I cannot pay both term loans and suppliers?

Step 4: Consider how your working capital position will impact your future repayment capacity.

- There's a gap in working capital and no reasonable plan to address it
- I lack funds for the next operating cycle

Step 5: Develop a realistic plan to move forward. Consult with advisors and give yourself a deadline to get this done.

Questions to ask

- Are there any plans I can amend, given the current situation?
- Can I postpone maintenance or upgrades?
- Are there capital expenditures I had previously planned?
- Does this year affect my future expansion plans?

If there's no plan, determine which options can be considered.

- What are my alternatives?
- What insurance or assistance plans are available?
- What's my contingency plan?

