Cash Discrepancy Triggers

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Doing a thorough, accurate evaluation of a customer's past performance is key to feeling confident when evaluating credit requests. Oftentimes in agriculture, the customer data received to perform this analysis is incomplete. Therefore, cash discrepancy errors can leave you scratching your head when completing a financial analysis (FINAN) or Schedule F cash to accrual analysis. Either missing sources or uses of cash may be a cash discrepancy culprit in an analysis. This missing cash can lead to either positive or negative cash discrepancies. Here we will look at potential culprits for both positive and negative cash discrepancies.

Cash Accuracy

To start, let's consider what the cash accuracy check is telling us in this analysis. The cash accuracy check is telling us whether cash inflows equal cash outflows for the analysis period. In other words, does the analysis period's beginning cash balance + all sources of cash = all uses of cash + ending cash balance for the analysis period?

Positive Cash Discrepancies

Positive cash discrepancies in the cash accuracy check indicate either the ending cash balance is incorrect or a use of cash for the analysis period is missing. Uses of cash include cash farm expenses, owner withdrawals for family living, capital purchases, principal payments, gifts given, or income taxes paid. Therefore, potential cash discrepancy triggers could include:

Missing Farm Expenses	Typically farm expenses are reported correctly. But there are a few potential culprits like missing feeder livestock purchases for the analysis year, as they are reported on the Sch. F until the livestock is sold. How about hedging accounts? Were there hedging losses that lead to additional brokerage account deposits and have not been included in the analysis? Another consideration would be other expenses related to the farm that are not reported on the Sch. F. Contract finishing operations may be an example, where Sch. E is used to report the income received and related expenses. Make sure all cash expenses for the current year are reported in the analysis.

Missing Personal Family Living Expenses	How much does the farm contribute to family living expenses? This can be especially troublesome if the farmer doesn't take a set draw from the operation. Also determining an accurate family living number can be difficult if the farm checkbook is used to pay personal expenses. Having an accurate number for family living expenses is important for sole proprietors and when using a consolidated balance sheet that includes personal asset and liability detail. Additionally, did the borrower give any gifts during the analysis period?
Missing Capital Purchases	Were pieces of equipment purchased during the period? This question should include assets purchased outright and trades. Large ticket purchases like this may not be missed often, but it does happen, especially if the transaction happened right at the beginning of the year. If assets were traded during the analysis period, consider what the borrower is reporting to you in terms of the new asset. At the very least, the "boot" price of the trade needs to be included in your analysis.
Missing Loan Principal Payments	Checking the credit report for a borrower reveals the loan balances for a number of credit vendors. But not all banks and alternative sources of credit report agricultural loans to credit bureaus. Therefore, loan principal payments can be missed. Accurate loan balances are an important starting point in the analysis process. Work with your customer to get accurate beginning and ending loan balances to ensure proper principal payments are used in the analysis.
Incorrect Ending Cash Balance	Starting with the right ending cash balance is imperative in this analysis. The customer's checkbook balance is to be used, not their deposit account balance at your institution. Their checkbook balance considers end-of-period transactions from the previous period. Oftentimes, the producer's actual checkbook balance is less than the deposit account balance at your institution. This is because of those floating checks the producers have written out for end-of-period expenses that have not yet cleared your institution.

Negative Cash Discrepancies

Negative cash discrepancies in the cash accuracy check indicate either the beginning cash balance is incorrect or a source of cash for the analysis period is missing. Sources of cash include cash farm income, personal income, capital sales, money borrowed, cash gifts, and inheritances received. Therefore, potential cash discrepancy triggers could include:

Missing Farm Income	Typically, farm income is reported correctly. But there are a few potential culprits like missing cull livestock sales since these are not reported on the Sch. F. How about hedging accounts? Were there hedging profits received on closed contracts that have not been included in the analysis?

Missing Personal Cash Inflows	Does the producer or a spouse have non-farm sources of income? If so, has this been included in the analysis? This is especially important for sole proprietors and when using a consolidated balance sheet that includes personal assets and liabilities. Additionally, did the borrower receive any gifts or inheritances during the analysis period?
Missing Capital Sales	Were pieces of equipment sold during the period? This question should include outright asset sales and traded assets. It's easy for an operator to disregard the sale of older equipment and other assets that were not being utilized in the operation. This is a source of cash for the operation during the analysis period though. Additionally, if assets were traded during the analysis period, consider what the borrower is reporting to you in terms of the new asset. If the full purchase price of the new asset is reflected in the analysis, the value received for the traded asset must be included as well.
Missing Money Borrowed	Checking the credit report for a borrower reveals the loan balances for a number of credit vendors, but, not all banks and alternative sources of credit report agricultural loans to credit bureaus. Therefore, funds borrowed can be missed. Consider if the customer has a line of credit at the co-op or has used dealer financing to purchase equipment that may not show up on their credit bureau report.
Incorrect Beginning Cash Balance	As stated before, starting with the correct beginning cash balance is imperative in the analysis. The customer's checkbook balance is to be used, not their deposit account balance at your institution. Their checkbook balance considers end-of-period transactions from the previous period. Oftentimes, the producer's actual checkbook balance is less than their deposit account balance because of those floating checks the producers have written out for end-of-period expenses that have not yet cleared.

Summary

Cash discrepancy sleuthing is often challenging and can be a frustrating process. Use the steps above as potential starting points when sleuthing both positive and negative cash discrepancies in FINPACK Financial Analysis (FINAN) or FINPACK Schedule F Cash to Accrual Analysis. In these situations, the goal is to find the missing source or use of cash for the analysis period.