Determining the capital requirements for an agribusiness.

EXERCISE 1

Mark and Sally are considering a 310-cow 50/50 venture on a farm recently converted from dry stock. They live on a farm where Mark is the herd manager for a 600-cow herd, while Sally works in town as a veterinary nurse.

What factors should they take into account when setting goals for their future? (Both long and short term).

Answer:

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EXERCISE 2

What resources might Mark and Sally require for their 310-cow 50/50 venture?

Market value of high breeding worth stock;

Cows $1,800

In-calf heifers $1,600

Rising 1yr heifers $ 800

They currently have: They Require:

Vehicle 1 $30,000 80 hp tractor = $ 45,000

Vehicle 2 $15,000 Calf feeding equipment = $ 2,000

Boat $28,000 Assorted plant = $ 15,000

ATV/sundry $14,000 Mower = $ 10,000

Caravan on site at beach $35,000

Savings $165,000

NZ airport shares $18,000

45 heifer calves $36,000 \_\_\_ cows @ $1,800 = \_\_\_\_\_\_\_\_

25 in-calf heifers $40,000

(Stock grazed away.)

Total: \_\_\_\_\_\_\_ Total: \_\_\_\_\_\_\_\_\_

Mark has completed an ITO Production Management course through Dairy Training, and has a farming background.

EXERCISE 3

Establish Mark and Sally’s current equity position.

Answer:

Assets \_\_\_\_\_\_\_\_\_\_

Liabilities \_\_\_\_\_\_\_\_\_\_

Equity \_\_\_\_\_\_\_\_\_\_

Current equity as a percentage of their total assets:

Equity = \_\_\_\_\_\_\_

Total assets ÷ \_\_\_\_\_\_\_ x 100 = \_\_\_\_% equity.

EXERCISE 4

(Using the values of stock and plant from Exercise 2).

a). Mark and Sally have decided that they want to retain at least 40-50% equity in their business, with their private vehicle and caravan not included in calculations.

With this in mind they have made the following decisions;

* Sell their shares
* Sell the boat
* Trade the smaller vehicle (vehicle 1) for a second hand utility of the same value.
* Keep the caravan. (They value the time with family at the beach)
* Retain their 45 yearlings and 25 in-calf heifers. (Buy no extra yearlings.)
* Contribute all their savings

They have estimated that they will require an overdraft facility of $12,000 to cover seasonal needs in the 1st year.

Work out how much loan they will require, what their equity will be and whether this meets their 40-50% equity goal.

Answer: With their private vehicle and caravan not included in calculations.

They currently have: 310 cow 50/50 venture:

Vehicle 1 $30,000

Vehicle 2 $15,000

Boat $28,000

ATV/sundry $14,000

Caravan on site at beach $35,000

Savings $165,000

NZ airport shares $18,000

45 heifer calves $36,000

25 in-calf heifers $40,000

Total: $381,000 Total: \_\_\_\_\_\_\_

Mark and Sally will need a term loan of: \_\_\_\_\_\_\_\_

Show working:

Liabilities

Term loan = \_\_\_\_\_\_\_

Overdraft facility + \_\_\_\_\_\_\_

Total = \_\_\_\_\_\_\_

Assets = \_\_\_\_\_\_\_\_

Liabilities - \_\_\_\_\_\_\_\_

Equity = \_\_\_\_\_\_\_\_

Equity as a percentage of their total assets:

Equity = \_\_\_\_\_\_\_\_\_

Total assets ÷ \_\_\_\_\_\_\_\_\_ x 100 = \_\_\_\_\_\_% equity.

Decision:

b). Calculate the cost of the term loan required, if terms are 9.5% for 5 yrs.

Formula: Finance X interest rate X time

Answer = \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_