



If the total cash income for the year is \$250,000, the older party's share is \$195,000 (78 percent) and the younger party's share is \$55,000 (22 percent).

Gross cash income	
Milk and livestock sales	\$150,000
Crop sales and misc.	<u>100,000</u>
Total	\$250,000
Older party's share $\$250,000 \times 78\% =$	\$195,000
Younger party's share $\$250,000 \times 22\% =$	\$ 55,000

### Individual cash flows

Each party's income is used to pay the debt payments and expenses associated with individually owned resources that are contributed to the business. Additional income can be used for family living expenditures and taxes, or additional investment in the business.

As shown below, the younger party pays \$22,800 of livestock and machinery expenses, has an annual machinery and equipment debt payment of \$5,000, and needs \$18,000 for living expenses. The older party pays \$91,200 of expenses, has annual machinery and equipment debt payments of \$10,000, pays \$5,500 of real estate taxes, and needs \$35,000 for living expenses.

Expenditures	Younger Party	Older Party
Crop expense		\$60,000
Machinery expense	\$2,800	11,200
Dairy expense	20,000	20,000
Machinery debt payment	5,000	7,000
Equipment debt payment		3,000
Land taxes		5,500
Family living	<u>18,000</u>	<u>35,000</u>
Total	\$45,800	\$141,700

### ... and justice for all

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### Net cash flow

	Older Party	Younger Party
Cash income (above)	\$55,000	\$195,000
Cash outflow	<u>45,800</u>	<u>141,700</u>
Net cash flow	\$9,200	\$53,300

The younger party has \$9,200 which can be invested in the business, used to retire debt, or used for additional living expenditures.

### Inventory adjustments

Sales	\$250,000
Closing inventory	+23,000
Opening inventory	<u>-19,000</u>
Total returns	\$254,000

Changes in inventory can be included in the agreement. Although it requires more bookkeeping, inventory adjustments provide a more accurate picture of income. Inventory adjustments can be calculated annually or once during the life of the agreement. Inventory adjustments are computed by adding the year's end or closing inventory to income and subtracting the beginning inventory as a cost.

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