How does John Deere account for the loans it makes to farmers for the purchase of tractors and crop supplies?

Deere & Company (NYSE: DE), otherwise known as John Deere, manufactures and sells tractors and other farm equipment. For the past several years, it has been difficult for farmers to get bank loans for planting crops and for purchasing large, expensive farm equipment. Deere has stepped in to fill the gap in agricultural financing – Deere makes loans to farmers.

One type of loan Deere makes to farmers is to finance the purchase of farm equipment. In exchange for the farm equipment they are buying from Deere, farmers will make a cash down payment and sign a promissory note with Deere.

Another type of loan Deere makes to farmers is to finance crop supplies. Farmers can go to Deere for cash loans to purchase crop supplies, including seeds, fertilizer, and chemicals. Farmers will sign a promissory note with Deere and will receive a cash which they can then use to purchase the crop supplies.

Deere & Company is the fifth largest agricultural lender in the United States (Wells Fargo is the top agricultural lender.)

Discussion Questions

1. How would Deere's assets, liabilities, and equity be impacted when Deere sells farm equipment to a farmer in exchange for a promissory note and a cash down payment? What specific accounts will be affected? Will each of these accounts be increased or decreased?
2. How would Deere's assets, liabilities, and equity be impacted when Deere makes a cash loan to a farmer? What specific accounts will be affected? Will each of these accounts be increased or decreased?
3. When a farmer makes a loan payment to Deere, what general ledger accounts will be impacted? Will these accounts increase or decrease?