



BUILDING A BALANCE SHEET



FARM CREDIT

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Building a Balance Sheet

Knowing the financial position of your farm is critical to its future success. One of the most important tools in helping you to understand the financials of your operation is the balance sheet; also referred to as a statement of owner's equity or net worth. It depicts your financial position at a specific point in time.

Why Complete a Balance Sheet?

Because a balance sheet shows a snapshot of your operation, it is recommended to prepare a balance sheet as of December 31 each year or at the end of a fiscal year, if not a calendar year. This allows you to see how your farm operation has changed and grown from year to year. Other benefits of completing a balance sheet each year include:

- Helping you understand your business better, which will allow you to make better management decisions on your farm for the future.
- Information on the balance sheet can be used to calculate key financial ratios for your farm.
- Lenders, such as Farm Credit, need this information to assess your business and can expedite loan approval when completed accurately and as of December 31 of each year.

In addition to creating a balance sheet for your farm business, it is also recommended to complete a separate, personal balance sheet on your individual finances.

Balance Sheet Basics

The three main components of a balance sheet are assets, liabilities, and owner's equity. The standard accounting equation represented on a balance sheet is:

$$\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$$

Assets

Assets are anything owned by a farm business that have monetary value. They are classified as current assets and noncurrent assets.

Type of Asset	Description	Examples
Current Asset	Assets that can be turned to cash within a year without disrupting normal operations, or will be sold or consumed within a year	Cash, accounts receivable, marketable securities, stored crops, investment in growing crops, supplies, prepaid expenses, market livestock, cash value of life insurance
Noncurrent Asset	Assets used to carry on production activities that typically wear out and must be replaced	Breeding livestock, automobiles, machinery, retirement accounts, securities (Farm Credit stock, equity in cooperatives) land, buildings, long-term contracts

Liabilities

Liabilities are anything owed by the farm business. Like assets, they are classified as current liabilities and noncurrent liabilities.

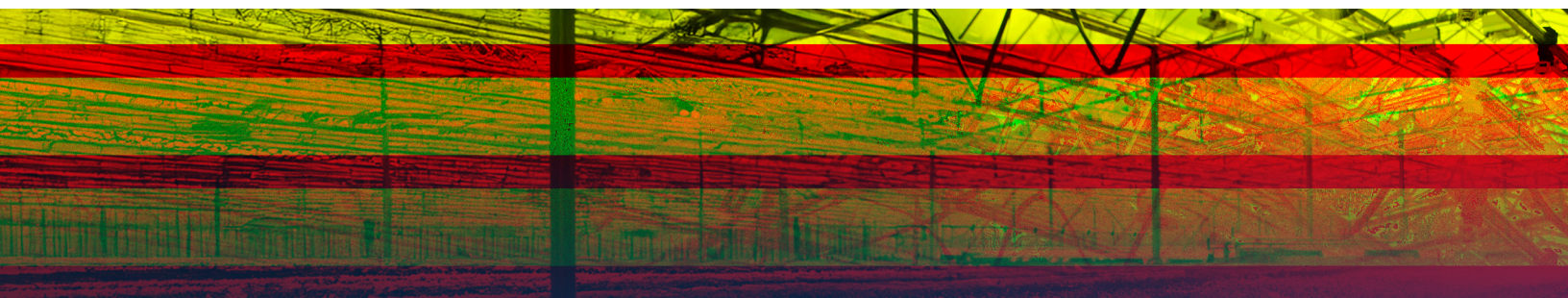
Type of Liability	Description	Examples
Current Liability	All debts due within the next 12 months	Accounts payable, cash rents, lease payments, operating loan balances, accrued expenses (rent, taxes, interest accrued on loans, wages, etc.), principle portion of term loan payments due within 12 months
Noncurrent Liability	Debts against any noncurrent asset with a term greater than one year	Loans for breeding livestock, automobiles, machinery/equipment, land or buildings

Owner's Equity

Owner's Equity is the area of the balance sheet that will need to be calculated since it is dependent on the value of your assets and liabilities. It shows what your business is worth.

To calculate Owner's Equity, subtract the Liabilities from your Assets. The remaining value is Owner's Equity.

$$\text{Assets} - \text{Liabilities} = \text{Owner's Equity}$$



Case Study Example

John Farmer has asked for your help in completing his 12/31/20XX market value balance sheet. He is requesting a loan with his ag lender. He reviewed what he owns and owes, and prepared the following list. Use the information below to complete the balance sheet for Mr. Farmer.

Assets

- **Dairy livestock**
 - » 200 head of mature cows valued at \$1,500 per head
 - » 100 head of bred heifers valued at \$1,100 per head
 - » 50 yearling heifers worth \$800 each
 - » 25 calves valued at \$400 each
- **Feed, seed and supplies**
 - » Corn silage: 1,800 tons valued at \$40 per ton
 - » Haylage: 600 tons worth \$60 per ton
 - » Hay: 150 tons worth \$150 per ton
 - » Shelled corn: 30,000 bushels valued at \$4 per bushel
 - » Straw: 50 tons at \$80 each
 - » Dairy concentrate: 10 tons worth \$480 per ton
 - » Seed corn: Prepaid \$20,000 of next year's seed corn expense.
- **Market livestock**
 - » 50 head of steers, avg. weight 1,200 lbs. and are worth \$1.50 per lb.
 - » 50 head of steers, avg. weight 600 lbs. and are worth \$1 per lb.
- **Other current assets**
 - » Diesel fuel: 500 gallons at \$2.50 per gallon
 - » Gasoline: 300 gallons at \$2.00 per gallon
 - » Bull semen valued at \$1,000
- **Crops held for resale**
 - » Soybeans: 8,000 bushels worth \$9.00 per bushel
- **Other information**
 - » He has \$15,000 cash on-hand in his savings and checking accounts.
 - » He had an appraisal of the farm completed and the appraisal report included the following:
 - 160 acres of farm land – north farm (\$800,000)
 - 100 acres of farm land – south farm (\$600,000)
 - 50 acres on home farm with facilities (\$750,000)
 - Machinery and equipment, market value (\$380,000)

- » On December 26, he received his partial milk check for the month of December for \$40,000. It is usually about 40 percent of his gross milk check for the month, meaning he has an accounts receivable of \$60,000.
- » He has a pickup truck worth \$25,000 and a car worth \$18,000.
- » He and his wife have IRA accounts valued at \$140,000.
- » He has a cash value life insurance policy worth \$60,000.

Liabilities

Term Liabilities

Description	Purpose	Date Incurred	Orig. Amnt.	Balance	Current Portion*
Tractor Loan	4WD Tractor	2023	150,000	96,319	21,131
Pickup Truck Loan	F250	2022	28,000	11,482	5,867
Equip. Loan	Forage Harvester	2023	50,000	26,736	10,110
Barn Loan	Heifer Barn	2021	75,000	47,744	7,338
Mortgage	Land Loan	2018	350,000	225,363	22,486

*Note: If unable to estimate your current portion of each debt, you can provide your balances and repayment terms to your lender to help determine the current portion for you.

Other Liabilities:

- A load of dairy concentrate delivered December of the past year has not been paid for and is \$4,200.
- He has labor accounts payable for payroll, payroll taxes and workers comp insurance of \$6,000.
- He owes the neighbor farm the second of two installment payments for custom combining corn of \$15,000.
- The vet bill arrived in the mail January 5 and showed the farm's outstanding vet bills for December of the past year totaled \$2,400.
- He has a balance on his credit card of \$3,000.
- He has a \$100,000 revolving credit line with Farm Credit with a principal balance of \$60,000 as of December 31.



Balance Sheet as of 12/31/20XX

Complete this blank balance sheet based on the information about John Farmer.

Assets		Liabilities	
Current Assets		Current Liabilities	
Cash		Operating Loans	
Accounts Receivable		Accounts Payable (Feed, Fertilizer)	
Feed, Seed and Supplies		Credit Cards	
Crops Held for Resale		Current Portion of Term Debt	
Market Livestock			
Life Insurance – Cash Value			
Other:			
Other:			
Current Assets		Current Liabilities	
Noncurrent Assets		Noncurrent Liabilities	
Machinery and Equipment			
Breeding Livestock			
Vehicles			
Retirement Account			
Farm Land: _____ Acres			
Farm Land: _____ Acres			
Farm Land: _____ Acres			
Other:			
Other:		Less Current Portion of Term Debt	
Noncurrent Assets		Noncurrent Liabilities	
Total Assets		Total Liabilities	
		Net Worth (Total Assets-Total Liabilities)	



Notes

Balance Sheet as of 12/31/20XX - Answer Key

Balance sheet based on the information about John Farmer.

Assets		Liabilities	
Current Assets		Current Liabilities	
Cash	\$15,000	Operating Loans	\$60,000
Accounts Receivable	\$60,000	Accounts Payable (Feed, Fertilizer)	\$27,600
Feed, Seed and Supplies	\$279,300	Credit Cards	\$3,000
Crops Held for Resale	\$72,000	Current Portion of Term Debt	\$66,932
Market Livestock	\$120,000		
Life Insurance – Cash Value	\$60,000		
Other:	\$2,850		
Other:			
Current Assets	\$609,150	Current Liabilities	\$157,532
Noncurrent Assets		Noncurrent Liabilities	
Machinery and Equipment	\$380,000	Tractor Loan	\$96,319
Breeding Livestock	\$460,000	Pickup Truck Loan	\$11,482
Vehicles	\$43,000	Equipment Loan	\$26,736
Retirement Account	\$140,000	Barn Loan	\$47,744
Farm Land: 160 Acres	\$800,000	Farm Mortgage	\$225,363
Farm Land: 100 Acres	\$600,000		
Farm Land: 50 Acres	\$750,000		
Other:			
Other:		Less Current Portion of Term Debt	(66,932)
Noncurrent Assets	\$3,173,000	Noncurrent Liabilities	\$340,712
Total Assets	\$3,782,150	Total Liabilities	\$498,244
		Net Worth (Total Assets-Total Liabilities)	\$3,283,906



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