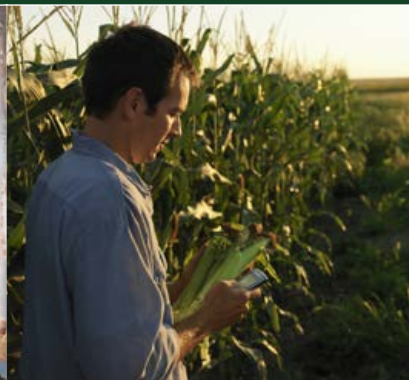




Building a Balance Sheet



✓ *Know your financial position*

✓ *Make better management decisions*

✓ *Compare your yearly performance*



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Building a Balance Sheet

Knowing the financial position of your farm operation is critical to its future success. One of the most important tools in helping you to understand the financials on your operation is the balance sheet. It depicts your financial position at a specific point in time.

Why Complete a Balance Sheet?

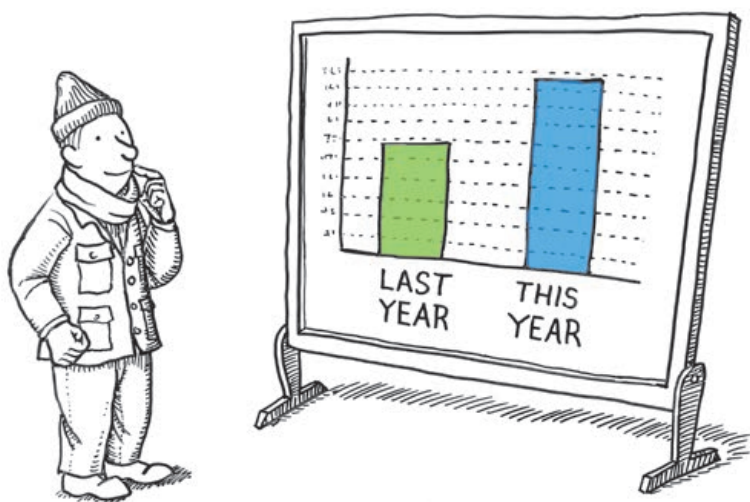
Since a balance sheet shows a snapshot of your operation, it is recommended to prepare a balance sheet as of December 31 each year. This allows you to see how your farm operation has changed and grown from year to year. Other benefits of completing a balance sheet each year include:

- A balance sheet will help you understand your business better, which will allow you to make better management decisions on your farm operation for the future.
- Information on the balance sheet can be used to calculate key financial ratios for your farm operation.
- Lenders, such as AgChoice 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 that is owned by a farm business that has monetary value. They are classified as current assets and noncurrent assets.

Type of Asset	Description	Examples
Current Asset	Any 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 will wear out and must be replaced	Breeding livestock, automobiles, machinery, retirement accounts, securities (AgChoice 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

Mr. 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 net 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	2013	150,000	96,319	21,131
Pickup Truck Loan	F250	2012	28,000	11,482	5,867
Equip. Loan	Forage Harvester	2013	50,000	26,736	10,110
Barn Loan	Heifer Barn	2011	75,000	47,744	7,338
Mortgage	Land Loan	2008	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 AgChoice Farm Credit with a principal balance of \$60,000 as of December 31.



