



# Preparing the Balance Sheet

*The balance sheet is a report of the farm business' financial position at a point in time. It lists assets, liabilities, and net worth (owner's equity) and represents a snapshot of the farm business as of a certain date.*

## Explanation:

The balance sheet is referred as such since it adheres to the accounting formula:

$$\text{Assets} = \text{Liabilities} + \text{Net Worth (Owner's Equity)}$$

Where:

**Assets:** Items owned by the farm business that have value.

**Liabilities:** Financial obligations (debts) of the farm business that are owed to others.

**Net Worth (Owner's Equity):** The value of the farm business owned and free of debt.

The balance sheet is also known as a net worth statement or statement of financial position because of the importance of net worth with respect to representing the farm business' financial position.

Assets are classified on the balance sheet as to their useful life in the farm business: current (used or sold within 1 year or within the normal operating cycle if longer than 1 year) and non-current (held for more than 1 year). Liabilities are classified similar to assets: current (due within 1 year) and non-current (due beyond 1 year).

In agriculture, non-current assets and liabilities may be further divided into intermediate (more than 1 year and less than 10 years) and long-term (more than 10 years). This purpose is to compare intermediate or long-term liabilities to intermediate or long-term assets to determine whether or not the debt is structured consistently with asset life and to evaluate the overall balance sheet structure.

The Farm Financial Standards Council (FFSC) provides the specific standards and structure for the balance sheet. This paper provides a concise and practical presentation of the balance sheet, while in compliance with the FFSC guidance.

## STRUCTURE:

The balance sheet is structured into two columns: assets on the left side and liabilities on the right side. The net worth will appear in the bottom right side. The value of the assets will balance or equal the sum of the liabilities and net worth (owner's equity).

Balance Sheet	Date as of xx/xx/xxxx
<b>Assets</b>	<b>Liabilities</b>
<i>Current Assets:</i> cash, prepaid expenses, supplies, market livestock, grain, feed, and livestock inventory.	<i>Current Liabilities:</i> accrued interest, accounts payable (bills), credit card balances, short-term operating, principal due within 1 year on non-current loans.
<i>Non-Current Assets:</i> breeding livestock, machinery and equipment, vehicles, buildings and improvements, land. Also include investments in finance leases, cooperatives, and other entities.	<i>Non-Current Liabilities:</i> notes payable such as livestock, equipment, facility, real estate (building or land) loans.
	<b>Net Worth (Owner's Equity)</b>



## Summary:

The first financial management report often created for the farm business is the balance sheet. The balance sheet is one of the most commonly used financial reports and displays what the farm business owns and what is owed. The difference represents the owner's claim to assets or equity in the farm business. A well-prepared balance sheet can describe the farm business' financial position, measured by solvency and liquidity ratios and measurements. To

understand the farm's financial performance, the balance sheet and the income statement must be evaluated together to calculate profitability ratios and measurements.

References: Farm Financial Standards Council. (2021, January). *Financial guidelines for agriculture*.

## FARM BUSINESS FINANCIAL MANAGEMENT MODEL

### RECORDS

- COLLECTING AND ORGANIZING
- ACCOUNTING SYSTEM

### MANAGEMENT REPORTS

- ORGANIZING, ANALYZING AND REPORTING
  - Financial Position
  - Financial Performance
- FINANCIAL STATEMENTS
  - **BALANCE SHEET**
  - Income Statement
  - Statement of Cash Flows
  - Statement of Owner Equity

### DECISION-MAKING

- PLANNING
  - Pro Forma
  - Feasibility
  - Profitability
  - Risk-ability
- BUDGETS
  - Cash
  - Partial
  - Enterprise

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