



**BUSINESS
MANAGEMENT
IN AGRICULTURE**

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Preparing a balance sheet

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Credits

Coordinated by:

Carl O'Connor, Extension Economist,
Agricultural & Resource Economics,
Oregon State University, Corvallis, OR

Thomas Powell, Senior Education Officer,
Human Resources Planning & Development,
Farm Credit Services, St. Paul, MN

Gayle Willett, Extension Economist,
Dept. of Agricultural Economics,
Washington State University, Pullman, WA

Produced by:

Farm Credit Services, St. Paul, MN, and
Oregon State University, Corvallis, OR

Wayne E. Carlson, Extension Specialist,
University of Minnesota, St. Paul, MN
Consultant, Farm Credit Services, St. Paul

- David Parry, Media Producer
- Bruce Fredricksen, Media Producer
- Anne Merydith-Wolf, Editor
- Marla Maeder, Editor
- Bobbi Buffham, Word Processor
- Judy Morris, Word Processor

Funded by:

Extension Service, USDA, Washington, DC
Farm Credit Corporation of America, Denver, CO
Farm Credit Services, St. Paul, MN

Sponsored by:

Cooperative Extension Services of:
Oregon State University
University of Nevada, Reno
Washington State University
University of Minnesota

Presented by:

Freddie Barnard, Extension Economist,
Purdue University, West Lafayette, IN

Thomas Booker, County Extension Agent,
Renville County, Olivia, MN

Bart Eleveld, Extension Farm Management
Specialist, Oregon State University, Corvallis, OR

Paul Gessaman, Extension Agricultural Finance
Economist, University of Nebraska, Lincoln, NE

Gary Hachfeld, County Extension Agent,
Agriculture, Nicollet County, St. Peter, MN

Dick Hawkins, Ext. Specialist, Farm Management,
University of Minnesota, St. Paul, MN

A. Gene Nelson, Head, Agricultural and Resource
Economics, Oregon State University, Corvallis, OR

Dick Witman, President and Manager, Witman
Farms, Inc.; Private Consultant, Culesac, ID

Advised by

Brent Beesley
Farm Credit Corporation of America, Denver, CO

David Bennett
Farm Credit Corporation of America, Denver, CO

Larry Bitney, Department of Agricultural Economics
University of Nebraska, Lincoln, NE

Michael Boehlje, Dept. of Agricultural and Applied
Economics, University of Minnesota, St. Paul, MN

James Cannon
Farm Credit Corporation of America, Denver, CO

Virgil Crowley, Dept. of Agricultural Economics,
Pennsylvania State University, University Park, PA

Gayle Davidson
Farm Credit Services, St. Paul, MN

Mike Davis
Farm Credit Corporation of America, Denver, CO

Clark Garland, Agriculture Extension Service,
University of Tennessee, Knoxville, TN

Richard Johnson
Farm Credit Services, St. Paul, MN

David Kettering
Farm Credit Services, St. Paul, MN

David Lambert, Dept. of Agricultural Economics,
University of Nevada, Reno, NV

Buel Lanpher, Extension Service,
USDA, Washington, DC

Jim Schurr
Farm Credit Corporation of America, Denver, CO

Roger Shaffer
Farm Credit Corporation of America, Denver, CO

● Preparing a balance sheet



Freddie L. Barnard

Freddie L. Barnard was born and raised on a beef and grain farm in western Kentucky. He is an assistant professor and Extension economist at Purdue University and the author of several Extension publications on financial statements and financial management. Barnard is the director of the Indiana Agricultural Banking School and is a former manager of a Production Credit Association field office in Kentucky. He holds a Ph.D. in agricultural economics, with a specialty in agricultural finance, from the University of Illinois.

Purpose

The purpose of this module is to help you:

1. understand a balance sheet and its importance in analyzing your farm business,
2. recognize the three major components of a balance sheet,
3. recognize that a balance sheet is structured on the basis of a basic accounting equation,
4. become familiar with three categories of assets and three categories of liabilities and examples of entries under each,
5. become acquainted with the cost and market methods of valuing assets, liabilities and net worth,
6. learn how to prepare a balance sheet,
7. appreciate at least six common uses for a balance sheet, and
8. become aware that there are a variety of pre-printed balance sheet forms available and to select the one best suited to your business.

Videotape script

By Freddie L. Barnard

Like most producers, I'm sure you deal with lenders. Like it or not, lenders talk in terms of balance sheets; they are impressed by clients who can provide this statement. It helps convince them that you are a good financial manager and thus a good credit risk.

Maybe the most important reason for preparing a balance sheet is that it allows you to make better financial decisions about taxes, purchases, even enterprises. All these decisions are big ones in agriculture today. Even a small slip in any of them can cause profitability and cash flow problems.

This is one module of the *Business Management in Agriculture* series and is intended to be used with its corresponding videotape. The script may vary from the actual videotape text.

Our purpose is to better acquaint you with a balance sheet and how to use it successfully. Since we won't have time to discuss all the specific aspects of the balance sheet during this session, we hope to make you aware of areas where you may need to seek additional advice. We'll focus on the definition, uses, structure and preparation of a balance sheet.

A balance sheet, or net worth statement, is a summary of the assets and liabilities of a business, and the owner's equity or net worth, as of a specific date.

A balance sheet represents a financial snapshot of the business at just one point in time; it is not a report representing a *period* of time. That point in time is represented by the balance sheet date. While it may be desirable to prepare a balance sheet at various times during the year, a balance sheet should always be prepared on the last day of the accounting period for your business. Preparation of a balance sheet on the same date each year makes it easier to compare business performance over several years.

Assets and liabilities

Assets are all the things of value that you own or that are owed to you on the balance sheet date. Liabilities, or debts, are the amounts that you owe on the balance sheet date.

Net worth, or owner's equity, is the difference between the total value of the assets and the total value of the liabilities. It is the amount that would be left if you sold all your assets and paid all your liabilities on the balance sheet date.

Let's look at how you can use the information that is reported on a balance sheet. The primary use of a balance sheet is to measure the risk-bearing ability, or financial solvency, of a business. In other words, it shows the margin by which your debts would be covered if the business was ended and the assets sold. A balance sheet also:

1. reports the amount and type of debt and equity capital (sometimes called the financial structure of the business) used to finance existing assets,
2. provides some insight into a business's liquidity, or whether the business can meet its financial obligations in a timely manner,
3. is usually part of a loan application for securing debt,
4. is useful in preparing income tax reports (assuming accrual accounting is used), and
5. can be used to document the financial position of the business to outside parties (lessor, lessee, potential investor, family members).

BALANCE SHEET COMPONENTS

Assets - What you own

Liabilities - What you owe

Net Worth - Difference between assets and liabilities

CATEGORIES OF ASSETS

Current assets
+ Intermediate assets
+ Long-term assets

= Total assets

Let's look at how a balance sheet is organized. It is based on a basic accounting equation which states: Assets equal liabilities plus net worth.

This relationship dictates that the value of all the assets must equal the value of the claims on those assets by creditors and owners. Just as the name implies, a balance sheet must balance. It balances because assets can only be funded by debt and/or equity capital.

Now let's examine the balance sheet in even more detail. Assets are on the left-hand side of the balance sheet. They are usually classified in one of three categories according to the time required to convert them into cash with a minimal loss in value. Those categories are current, intermediate and long-term assets.

Current assets represent cash and near-cash items such as inventories. These items can be converted into cash without disrupting the business. Most current assets will be used up or converted into cash within one year of the balance sheet date.

Examples of current assets include cash, grain and forage inventories, supplies, feeder and market livestock, breeding animals to be culled this year, accounts receivable, cash investment in growing crops, and prepaid expenses.

Intermediate assets are used to support farm production and will not normally be sold or converted into cash during the coming year. These assets typically have a useful life of from one to 10 years and are part of the productive plant of the business. Examples include breeding stock, machinery and equipment.

Long-term or fixed assets are also part of the productive plant, but these assets are more permanent in nature. Normally, you couldn't convert these into cash without disrupting your business. Examples include real estate and improvements (barn, garage, irrigation, well). If we add current, intermediate and long-term assets, we have the total assets for the business.

This same classification system is used for liabilities which are located on the right-hand side of the balance sheet.

Current liabilities are debts due to be paid on demand or within one year of the balance sheet date. Examples include operating notes, accounts payable, accrued taxes, accrued rent and lease payments, and the principal on intermediate and long-term debts due within 12 months. Interest on current, intermediate or long-term liabilities that has accrued up to the balance sheet date should also be included as a current liability.

As you might guess, **intermediate liabilities** are debts on equipment, machinery and breeding stock. These liabilities usually have a term of one to 10 years. Since the principal due within a year has already been recorded as a

current liability, be sure to adjust the balance downward by that amount.

Long-term liabilities are debts on fixed or long-term assets with a maturity date in excess of 10 years. Examples are real estate mortgages and land contracts. Remember to adjust the balance to reflect principal payments due within a year.

Before going any further, let's talk about contingent liabilities.

Contingent liabilities are the amounts you would owe if a particular event occurred. For example, contingent liabilities include taxes you would owe if you sold your assets on the balance sheet date, or the amount you would owe if you co-signed a note for someone and they defaulted. These amounts should be included on the balance sheet for a complete financial picture of the business.

Some people recommend that contingent liabilities for an ongoing business be included in the main structure of the balance sheet, while others advise placing those liabilities in a footnote. We suggest you record such things as taxes on capital gains, depreciation recapture, and investment tax credit recapture in the main body of the statement and footnote such things as co-signed notes.

There is often a question as to whether personal assets and liabilities should be included on the balance sheet of the business. If the intent of the balance sheet is to represent the financial position of only the business, then personal assets and liabilities should not be entered on the balance sheet. However, most lenders will want you to add a notation or footnote, or prepare a separate balance sheet indicating personal assets and liabilities in order to get a complete financial picture of all your assets and financial obligations.

If we add current, intermediate and long-term liabilities, we have total liabilities. The difference between total liabilities and total assets gives the net worth of the business, the third component of a balance sheet.

Figuring values

The entries on a balance sheet are in dollars. This is simple for the liabilities because we owe dollars. But for some assets, we are forced to calculate a value. That value is the product of physical items, such as bushels of grain or acres of land, and a price.

Placing a value on assets becomes more difficult as we move from current inventories to long-term assets. Grain inventories and market livestock can be valued at a current market price minus selling costs. That information is pretty readily available. However, breeding stock and machinery are not easily converted into cash and thus are more difficult to value. Perhaps the most difficult assets to value are land

CATEGORIES OF LIABILITIES

Current liabilities
+ Intermediate liabilities
+ Long-term liabilities

= Total liabilities

METHODS OF VALUING ASSETS

1. Cost method

Cost of the asset
+ improvements
- accumulated depreciation

2. Market-value method

and improvements. This is too bad because the dollar value of land is often the highest-priced item on the balance sheet.

There are two major methods for valuing assets such as land and machinery. One is the **cost method**, which is the initial cost of the asset plus improvements, minus accumulated depreciation. This figure is often called the book value. Estimated market value is the second method.

Cost vs. market value

The cost method is not entirely satisfactory because it does not accurately report the value of assets on the balance sheet date. On the other hand, the market value does give an accurate estimate of value on the balance sheet date. However, the market value of assets and, ultimately, net worth can change over time. Those changes can be caused by variations in prices, as well as earnings or losses.

To adequately address this problem, we should use both methods of valuation because each provides useful information about the financial position of the business and reasons for changes in the financial position over time. Using both methods usually results in two values for business assets and liabilities and two values for net worth.

Before we prepare a balance sheet, we need to decide which balance sheet forms to use. There are several versions of pre-printed balance sheet forms, and the developer of each thinks their version is best. To avoid this controversy I'm not going to use any of the pre-printed forms. Instead, I'll construct a balance sheet using only the concepts we've discussed. Our balance sheet may not include all the categories that would normally appear on a pre-printed balance sheet form.

I encourage you to critically examine different forms, including those used by your lender or accountant. Then choose the one best suited to your business.

An example

Let's now look at a simplified example (p. 6) designed to illustrate some of the things we've been discussing. This balance sheet is for a person we'll call Frank Farmer.

Frank is a sole proprietor who owns a total of 80 acres. On 60 tillable acres, he grows 40 acres of corn and 20 acres of soybeans. He also cash rents 300 acres (200 acres of corn and 100 acres of soybeans) and rents 240 acres (120 acres of corn and 120 acres of soybeans) on a fifty-fifty share lease. In year 19X1 he farmed 360 acres of corn and 240 acres of soybeans. He also sold 550 market hogs from a 40-sow farrow-to-finish hog operation. Frank works full time on the farm and has one hired man.

Beginning balance sheet

Name: Frank Farmer

Date: December 31, 19X0

Assets			Liabilities and net worth		
	Cost	Market value		Cost	Market value
Current assets			Current liabilities		
Cash	\$ 6,000	\$ 6,000	Accounts payable	\$ 82,000	\$ 82,000
Livestock:			Portions of I-T and L-T debt due in 12 months:		
Hogs	20,000	20,000	Intermediate (I-T)	6,000	6,000
Grain inventory:			Long-term (L-T)	3,000	3,000
Corn	60,000	60,000	Accrued interest:		
Soybeans	20,000	20,000	Accounts payable	5,500	5,500
Supplies	5,000	5,000	Intermediate (I-T)	1,800	1,800
			Long-term (L-T)	0	0
			Accrued taxes:		
Other	0	0	Real estate	500	500
			Income & Soc. Sec.	1,200	1,200
			Other	0	0
Total current assets	\$ 111,000	\$ 111,000	Total current liabilities	\$ 100,000	\$ 100,000

Assets			Liabilities and net worth		
	Cost	Market value		Cost	Market value
Intermediate assets			Intermediate liabilities		
Machinery:			Machinery loan (Amount due beyond 12 months)		
Cost \$127,000	\$ 127,000	\$ 102,000		\$ 24,000	\$ 24,000
Acc. Dep. 30,000	97,000				
Breeding livestock	10,000	10,000			
Other	0	0	Other	0	0
Total intermediate assets	\$ 107,000	\$ 112,000	Total intermediate liabilities	\$ 24,000	\$ 24,000
Long-term assets			Long-term liabilities		
Land and buildings:			Real estate mortgage (Amount due beyond 12 months)		
Cost \$124,000	\$ 124,000	\$ 127,000		\$ 54,000	\$ 54,000
Acc. Dep. 12,000	112,000				
Other	0	0	Other	0	0
Total long-term assets	\$ 112,000	\$ 127,000	Total long-term liabilities	\$ 54,000	\$ 54,000
			Total liabilities	\$ 178,000	\$ 178,000
			Net worth	\$ 152,000	\$ 172,000
Total assets	\$ 330,000	\$ 350,000	Total liabilities and net worth	\$ 330,000	\$ 350,000

The balance sheet date is December 31, 19X0. This is the end of the calendar year, which is also the end of Frank's business and tax year. (The year 19X0 was used so you can't argue with the prices in this example and so the example won't become dated.)

Frank's current assets include cash, hogs, corn, soybeans and some supplies. All these assets will either be used up or converted into cash during the next 12 months, so each satisfies our definition for a current asset.

(The numbers in this example are rounded off for ease of calculation. However, when you complete your balance sheet, be as precise as you can when estimating values.)

To clearly identify assets that are valued differently, we will use two columns -- one for the cost method and one for the market-value method -- for our balance sheet. Of course, the \$6,000 in cash is valued at \$6,000, using both methods. But for hogs, corn and soybeans, the physical quantity of each is multiplied by its respective market price on the balance sheet date. That value is adjusted down to reflect marketing costs and is entered under both the cost and market-value columns because Frank does not feel there are important differences between these two values on these assets.

Frank also has some supplies on hand, for which he paid \$5,000. He also uses that value as the market value. Theoretically, there could be a difference in market value and cost if there had been a major change in the price of the supplies, but we'll assume that is not the case. The total value of our current assets is then \$111,000 for both methods.

Valuing machinery and livestock

As we move down the left-hand side of the balance sheet we come to the intermediate assets. We see that Frank has some machinery and breeding stock. As we said previously, the cost method of valuing assets consists of the original cost of the asset plus improvements minus accumulated depreciation. For Frank, the original cost plus improvements of his machinery is \$127,000. The accumulated depreciation on 12/31/X0 is \$30,000. This leaves a book value for Frank's machinery of \$97,000, calculated by subtracting \$30,000 from \$127,000. Does that value equal the amount Frank could receive if he sold his machinery on the balance sheet date? No. Rarely will the two values be equal. In our example, Frank estimates that he could sell his machinery for \$102,000 (after selling costs have been deducted).

The cost and market values of the machinery differ by \$5,000. You can receive some guidance as to an accurate

market value by consulting appraisers, auctioneers, blue books and survey data.

It's common to have both purchased and raised breeding animals in a breeding herd, and the two groups should be handled differently in terms of value. For our example, though, let's assume the difference between cost and market values is small, and we will use a market value of \$10,000 in both columns. However, be aware that there could be a difference in these two values.

Our total intermediate assets equal \$107,000 using the cost method and \$112,000 using the market-value method.

What's land worth?

Frank's long-term assets consist of 80 acres, a house and some older buildings he uses for hogs. As you can see from the balance sheet, Frank's original cost was \$124,000. The accumulated depreciation is \$12,000, leaving a book value of \$112,000. However, Frank feels his land and buildings could be sold for \$127,000. So Frank enters \$112,000 in the cost column but \$127,000 in the market-value column.

Now let's total Frank's assets. The value of Frank's total assets using the cost method is \$330,000. The value of those same assets using the market-value approach is \$350,000. The difference is \$20,000. This is the result of Frank's machinery being valued \$5,000 higher and his land valued \$15,000 higher with the market-value method.

Valuing liabilities

Let's now look at liabilities. Frank has \$82,000 in accounts payable. Since that should be paid within 12 months, it is listed as a current liability. Other current liabilities include \$6,000 and \$3,000 that make up the principal of Frank's intermediate and long-term liabilities that must be paid within 12 months.

Frank is also not current with interest he owes on his accounts payable. The amount of interest that has accrued as of the balance sheet date is \$5,500. Also, the payment on Frank's machinery loan was made on 6/30/XO. So he has six months of interest that has accrued (\$30,000 at .12 for six months or \$1,800).

The payment on his real estate loan was made in full on 12/31/XO, so there is no accrued interest as of 12/31/XO for that loan. Frank has \$500 worth of real estate taxes that have accrued as of December 31, 19XO. His income and Social Security taxes have also accrued and equal \$1,200. This results in total current liabilities of \$100,000.

Frank's intermediate liabilities include that portion of his machinery loan that is not due to be paid within the next 12

months, or \$24,000. Since he does not have any other intermediate liabilities, \$24,000 is the total for that category.

Frank's long-term liability is that portion of his farm real estate mortgage that is not due to be paid during the next 12 months. That amount is \$54,000, which is our total for long-term liabilities.

So total liabilities equal current liabilities (\$100,000) plus intermediate liabilities (\$24,000) plus long-term liabilities (\$54,000) equal total liabilities (\$178,000).

This value is the same for both cost and market-value methods because we have not included any contingent liabilities. Such things as capital gains taxes, depreciation recapture and investment tax credit recapture would change the value of total liabilities and net worth using the market-value method. But we'll save that discussion for a later date.

Using the cost method, Frank's net worth (total assets minus total liabilities) is \$152,000 (\$330,000 minus \$178,000). Using the market-value method, Frank's net worth is \$172,000 (\$350,000 minus \$178,000). The net worth figures differ by \$20,000, which is the same as the difference between total assets using the two methods for valuing assets. This becomes an extremely important point when Frank's lender evaluates his risk-bearing ability, or financial solvency.

This completes our session on the balance sheet, and we have only skimmed the surface of this complex topic. Due to our limited time, the example problem did not address such important areas as: hedging accounts, CCC loans, retirement plans, financial leases, contingent liabilities and a variety of other important topics.

If any of these areas apply to your business, I suggest you seek the advice of an accountant. Additional information can also be found in the references section.

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Exercise 1

Video questions

Indicate whether each of the following statements is true (T) or false (F).

- T F 1. The three major components of a balance sheet are assets, liabilities and net worth.
- T F 2. Assets are defined as the amounts that are owed on the balance sheet date.
- T F 3. The primary use of a balance sheet is to measure the profitability of a business.
- T F 4. The basic accounting equation that the balance sheet is based on states that assets equal liabilities plus net worth.
- T F 5. The three classifications for assets are current, intermediate and long-term.
- T F 6. An example of a current asset is farm real estate.
- T F 7. An example of a contingent liability is the amount of a loan co-signed for a relative.
- T F 8. Never include physical data on a balance sheet.
- T F 9. If the assets of a business equal \$300,000 and the liabilities equal \$100,000, then the net worth is \$400,000.
- T F 10. Real estate should be valued on a balance sheet by using only the cost method of asset valuation.
- T F 11. A balance sheet is a summary of the assets, liabilities and net worth of a business over a period of time.
- T F 12. An example of an intermediate asset is cash.
- T F 13. The two methods of valuing assets on a balance sheet are cost and market value.
- T F 14. The cost method of valuing assets refers to the original cost of an asset plus capitalized improvements minus accumulated depreciation.
- T F 15. The book value of an asset is the value of an asset that is taken from a book of values for used equipment.
- T F 16. Current liabilities are debts that are due to be paid on demand or within one year of the balance sheet date.

- T F 17. An example of a current liability is that portion of a long-term liability that is due to be paid within 12 months of the balance sheet date.
- T F 18. Intermediate liabilities usually have a term of one to 10 years.
- T F 19. Personal assets and liabilities should always be included on the balance sheet for a farm or ranch.
- T F 20. A change in the net worth of a business that uses only the market-value method of valuing assets is due only to earnings.

Exercise 2

Completing a balance sheet

Using your favorite pre-printed balance sheet form, one you designed, or the work sheet on page 16, complete a balance sheet for Frank Farmer on December 31, 19X1, using the information listed below.

Balance sheet information for Frank Farmer on 12/31/19X1

1. Cash balance on 12/31/19X1 is \$9,660.
2. Frank has 30,000 bushels of corn on inventory as of 12/31/19X1. None of this corn is hedged or forward priced and Frank is not in the government feed grain program. The market price minus selling expenses on the balance sheet date is \$2 per bushel.
3. Frank has 3,000 bushels of soybeans on inventory as of 12/31/19X1. None of the soybeans are hedged or forward priced. The market price minus selling costs on the balance sheet date is \$5 per bushel.
4. Frank has several feeder and market hogs on inventory as of 12/31/19X1. The hogs are of various weights and sizes. Using that information and the market price on the balance sheet date, Frank has estimated the value of his feeder and market hogs at \$22,000.
5. Frank has supplies on hand that cost \$3,340. He uses that as the value of those supplies on the balance sheet date.
6. The original cost of Frank's machinery on 12/31/19X0 was \$127,000. Accumulated depreciation as of 12/31/19X0 is \$30,000. He purchased one piece of machinery during 19X1 that cost \$9,000. During 19X1, Frank took \$15,000 worth of depreciation on all his machinery. Frank did not sell any machinery during 19X1. Frank estimates the market value of his machinery on 12/31/19X1 to be \$94,000.
7. The value of Frank's breeding livestock on 12/31/19X1 is \$9,000. Frank estimates the market and cost values for his breeding livestock to be equal.
8. The original cost of Frank's buildings and land was \$124,000. Annual depreciation for 19X1 is \$2,000. No improvements were made to the farm buildings or to the land during 19X1. However, Frank estimates his land and buildings could be sold on the balance sheet date for \$117,000.
9. As of 12/31/19X1 Frank has accounts payable equaling \$86,000.
10. Frank still has a loan on his machinery. The total amount of that loan is \$24,000, of which \$6,000 plus interest is due to be paid on 6/30/19X2. The interest rate on Frank's machinery loan is currently 12%. He made his 6/30/19X1 payment in full.

11. Frank's accrued interest on 12/31/19X1 for his accounts payable equals \$5,860.
12. The remaining balance for Frank's long-term debt on 12/31/19X1 is \$54,000. Of that amount \$3,000 plus interest is due to be paid on 12/31/19X2. The interest rate on Frank's long-term loan is currently 10%. Frank made his payment on 12/31/19X1 in full.
13. Frank's accrued real estate taxes on 12/31/19X1 equal \$500.
14. Frank's accrued income and Social Security taxes on 12/31/19X1 equal \$1,200.

Work sheet

Name: Frank Farmer

Date: December 31, 19X1

Assets			Liabilities and net worth		
	Cost	Market value		Cost	Market value
Current assets			Current liabilities		
Cash	\$ _____	\$ _____	Accounts payable	\$ _____	\$ _____
Livestock: Hogs	_____	_____	Portions of I-T and L-T debt due in 12 months: Intermediate (I-T)	_____	_____
Grain inventory: Corn	_____	_____	Long-term (L-T)	_____	_____
Soybeans	_____	_____	Accrued interest: Accounts payable	_____	_____
Supplies	_____	_____	Intermediate (I-T)	_____	_____
			Long-term (L-T)	_____	_____
			Accrued taxes: Real estate	_____	_____
			Income & Soc. Sec.	_____	_____
Other	_____	_____	Other	_____	_____
Total current assets	\$ _____	\$ _____	Total current liabilities	\$ _____	\$ _____

Assets			Liabilities and net worth		
	Cost	Market value		Cost	Market value
Intermediate assets			Intermediate liabilities		
Machinery:			Machinery loan (Amount due beyond 12 months)		
Cost \$ _____	\$ _____	\$ _____		\$ _____	\$ _____
Acc. Dep. _____	_____	_____			
Breeding livestock	_____	_____			
Other	=====	=====	Other	=====	=====
Total intermediate assets	\$ _____	\$ _____	Total intermediate liabilities	\$ _____	\$ _____
Long-term assets			Long-term liabilities		
Land and buildings:			Real estate mortgage (Amount due beyond 12 months)		
Cost \$ _____	\$ _____	\$ _____		\$ _____	\$ _____
Acc. Dep. _____	_____	_____			
Other	=====	=====	Other	=====	=====
Total long-term assets	\$ _____	\$ _____	Total long-term liabilities	\$ _____	\$ _____
			Total liabilities	\$ _____	\$ _____
			Net worth	\$ _____	\$ _____
Total assets	\$ _____	\$ _____	Total liabilities and net worth	\$ _____	\$ _____

Answer key 1

Video questions

Indicate whether each of the following statements is true (T) or false (F).

T F 1. The three major components of a balance sheet are assets, liabilities and net worth.

T E 2. Assets are defined as the amounts that are owed on the balance sheet date.

Comment: False. Assets are defined as all those things that are owned on the balance sheet date.

T E 3. The primary use of a balance sheet is to measure the profitability of a business.

Comment: False. The primary use of a balance sheet is to measure the risk-bearing ability, or financial solvency, of a business.

T F 4. The basic accounting equation that the balance sheet is based on states that assets equal liabilities plus net worth.

T F 5. The three classifications for assets are current, intermediate and long-term.

T E 6. An example of a current asset is farm real estate.

Comment: False. Farm real estate is an example of a long-term, or fixed, asset.

T F 7. An example of a contingent liability is the amount of a loan co-signed for a relative.

T E 8. Never include physical data on a balance sheet.

Comment: False. Physical data should always be included on a balance sheet so you can determine whether changes in financial condition are caused by changes in the values of assets or by changes in inventories.

T E 9. If the assets of a business equal \$300,000 and the liabilities equal \$100,000, then the net worth is \$400,000.

Comment: False. Net worth = assets - liabilities. In this example \$300,000 - \$100,000 = \$200,000.

T E 10. Real estate should be valued on a balance sheet by using only the cost method of asset valuation.

Comment: False. Real estate should be valued on a balance sheet by using both the cost and market-value methods of asset valuation.

T E 11. A balance sheet is a summary of the assets, liabilities and net worth of a business over a period of time.

Comment: False. A balance sheet is a summary of the assets, liabilities and net worth of a business as of a specific date.

T E 12. An example of an intermediate asset is cash.

Comment: False. Cash is an example of a current asset.

T F 13. The two methods of valuing assets on a balance sheet are cost and market value.

T F 14. The cost method of valuing assets refers to the original cost of an asset plus capitalized improvements minus accumulated depreciation.

T E 15. The book value of an asset is the value of an asset that is taken from a book of values for used equipment.

Comment: False. Book value is defined as the cost of the asset plus capitalized improvements minus accumulated depreciation.

T F 16. Current liabilities are debts that are due to be paid on demand or within one year of the balance sheet date.

T F 17. An example of a current liability is that portion of a long-term liability that is due to be paid within 12 months of the balance sheet date.

T F 18. Intermediate liabilities usually have a term of one to 10 years.

T E 19. Personal assets and liabilities should always be included on a balance sheet for a farm or ranch.

Comment: False. If a balance sheet is intended to show the financial position of only the business, then personal assets and liabilities should be excluded.

T E 20. A change in the net worth of a business that uses only the market-value method of valuing assets is due only to earnings.

Comment: False. A change in net worth using the market-value method of valuing assets can be due to earnings or losses, and changes in the value of assets.

Answer key 2

Ending balance sheet

Name: Frank Farmer

Date: December 31, 19X1

Assets			Liabilities and net worth		
	Cost	Market value		Cost	Market value
Current assets			Current liabilities		
Cash	\$ 9,660	\$ 9,660	Accounts payable	\$ 86,000	\$ 86,000
Livestock:			Portions of I-T and L-T debt due in 12 months:		
Hogs	22,000	22,000	Intermediate (I-T)	6,000	6,000
Grain inventory:			Long-term (L-T)	3,000	3,000
Corn	60,000	60,000	Accrued interest:		
Soybeans	15,000	15,000	Accounts payable	5,860	5,860
Supplies	3,340	3,340	Intermediate (I-T)	1,440	1,440
			Long-term (L-T)	0	0
			Accrued taxes:		
Other	0	0	Real estate	500	500
			Income & Soc. Sec.	1,200	1,200
			Other	0	0
Total current assets	\$ 110,000	\$ 110,000	Total current liabilities	\$ 104,000	\$ 104,000

Assets			Liabilities and net worth		
	Cost	Market value		Cost	Market value
Intermediate assets			Intermediate liabilities		
Machinery:			Machinery loan (Amount due beyond 12 months)		
Cost \$136,000	\$	\$ 94,000		\$ 18,000	\$ 18,000
Acc. Dep. 45,000	91,000				
Breeding livestock	9,000	9,000			
Other	0	0	Other	0	0
Total intermediate assets	\$ 100,000	\$ 103,000	Total intermediate liabilities	\$ 18,000	\$ 18,000
Long-term assets			Long-term liabilities		
Land and buildings:			Real estate mortgage (Amount due beyond 12 months)		
Cost \$124,000	\$	\$ 117,000		\$ 51,000	\$ 51,000
Acc. Dep. 14,000	110,000				
Other	0	0	Other	0	0
Total long-term assets	\$ 110,000	\$ 117,000	Total long-term liabilities	\$ 51,000	\$ 51,000
			Total liabilities	\$ 173,000	\$ 173,000
			Net worth	\$ 147,000	\$ 157,000
Total assets	\$ 320,000	\$ 330,000	Total liabilities and net worth	\$ 320,000	\$ 330,000

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