

Balance Sheet

- Assets
 - Current
 - Intermediate
 - Long Term
 - Total Assets
- Liabilities
 - Current
 - Intermediate
 - Long Term
 - Total Liabilities
 - Net Worth

WASHINGTON STATE UNIVERSITY
EXTENSION

Balance Sheet

Asset Valuation

- Balance Sheet allows you to value assets at both market and cost or select just one valuation method

Financial Management Questions

- Where am I?
- Where do I want to be?
- How do I get there?

Goals of any business are:

- **Profitability** (to achieve market returns for all factors of production)
- **Liquidity** (to meet current cash needs without disruption of the business).
- **Solvency** (to own more than you owe).

Personal Goals vs. Business

- The business owner likely has other goals to balance with business goals.

Balance Sheet

- Also called – Financial Statement, Net Worth Statement
- Lists Inventory of what you own – (assets)
- Inventory of what you owe to others (debts)

Balance Sheets

- The most basic financial document
- Should be prepared correctly & consistently over time.
- Can show accumulated effects of profitability and asset valuation changes over time.

Balance Sheet Challenge

Asset Valuation

- **Market Valuation** - assets valued at fair market value
- **Cost Valuation** - assets valued at depreciated value

Balance Sheet Summary

- | | |
|---------------------------|---------------------------------------|
| • Assets | • Liabilities |
| – Current (< 1 year) | – Current (due in the next 12 months) |
| – Intermediate (1-10 yrs) | – Intermediate |
| – Long Term (>10 years) | – Long Term |
| – Total | – Total |
| | • Owner Equity (Net Worth) |

The Asset Valuation Debate

- Assets can be valued either by
 - Cost (Purchase price – accumulated depreciation)
 - Farm Market Value – Sales price – cost of disposition

Balance Sheet Ratios

- Helps you measure the strengths and weakness of your farm.

Current Ratio

- **Liquidity**- ability of your farm to pay the bills on time.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Working Capital

- **Liquidity**- tells us the operating capital available in the short term from within the business.
- Working Capital= Current Assets less Current Liabilities

Farm debt-to- asset ratio

- **Solvency**- ability to pay all debts if the business was sold tomorrow.
- Ratio - $\frac{\text{Total Liabilities}}{\text{Total Assets}}$

Farm equity to asset ratio

- **Solvency**- is your share of the business
- Farm Equity Ratio- $\frac{\text{Farm Net Worth}}{\text{Total Farm Assets}}$
Assume Farm Assets of 500,000 and liabilities of \$300,000 – what is the farm equity ratio?

Asset Valuation Influences Analysis Results

- **Historic Cost (or Tax Basis)**
 - Time honored accounting method
 - Default method for non-cash basis accounting
 - Used by nearly all corporations
- Allows direction connection between beginning balance sheet, income statement to create ending balance sheet

Asset Valuation will affect ratios and interpretation of financial performance

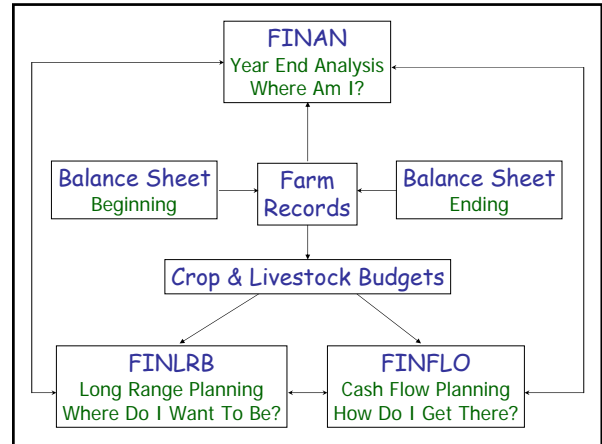
- **Historical Cost**
 - Equals the price paid minus depreciation
 - Allows measurement of operating profit
 - May limit borrowing capacity
 - Is needed for tax calculations
 - Is required for estate tax calculations (death taxes)

Cost vs. Fair Market Value

- **Current Market Value** is an estimate at what a willing buyer would pay a willing seller in which neither is under duress.
 - Is useful for measuring opportunity costs
 - Useful for estate tax planning
 - Needed for insurance coverage
 - Can persuade lenders to extend more credit

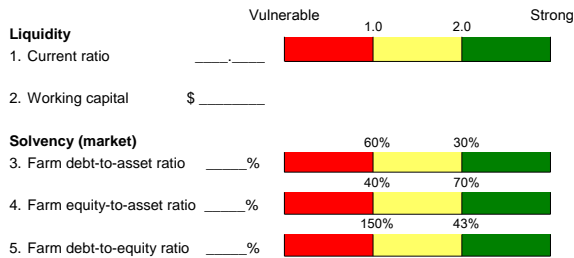
Asset Valuation Methods are often misused

- Neither method answers all questions well.
- If possible, use double track balance sheets with both Historical Cost and CMV of assets
- Don't mix the tracks
- Don't mix business and personal assets and liabilities
- Don't forget contingent liabilities on CMV track



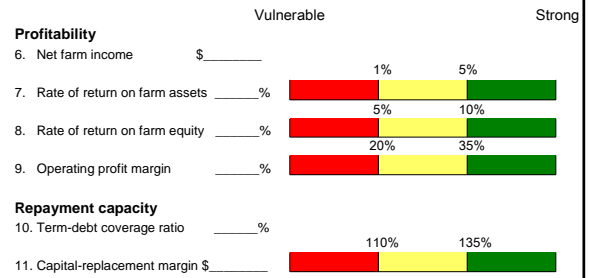
Farm finance scorecard

Year 20__



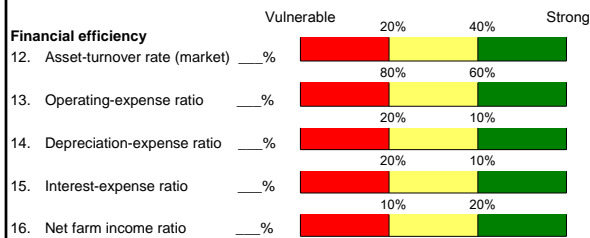
Farm finance scorecard

Year 20__



Farm finance scorecard

Year 20__



Ratios

Year	2006	2007	2008	2009	2010						
Liquidity											
1. Current Ratio	0.9	1.1	1.5	2.2	4.3						
2. Working Capital	(23,000)	18,000	64,000	110,000	157,000						
Solvency (market)											
3. Farm debt-to-asset ratio	56%	46%	37%	27%	18%						
4. Farm equity-to-asset ratio	44%	54%	63%	73%	82%						
5. Farm debt-to-equity ratio	125%	86%	58%	38%	21%						