

# INTRODUCTION TO BALANCE SHEETS



## Balance Sheet

- List of your assets, liabilities, and net worth at a **certain point in time**
  - For individuals or households
  - For businesses
- “Snapshot” of your financial position at a certain point in time
  - Shows what you own and what you owe
  - Shows what you own and how you are paying for it



## Balance Sheet

- Assets = Total Liabilities + Net Worth
  - **Always holds true!!**
  - Assets = the items you have or own
  - These assets are paid for with:
    - Liabilities = “other people’s money” (loans or debt)
    - Net Worth = “your money” (down payment)

- Example: Buy a \$150,000 house
  - Make a \$30,000 down payment (Net Worth)
  - Get a \$120,000 mortgage (Liability)



## Balance Sheet

- Very important for obtaining credit
  - Lenders may want:
    - Past balance sheets
    - Current balance sheet
    - Projected balance sheets
- Owners & managers use them to identify strengths and weaknesses of the business



## Sections of a Balance Sheet

- Current Assets
  - Cash, checking, and savings accounts
  - Assets that will be used up during production
    - Seed, fertilizer, packaging (cartons)
  - Assets that are meant to be sold within the next year
    - Cut flowers, corn, vegetables, finished goods
  - They will be sold or used in production within 1 year



## Sections of a Balance Sheet

- Non-Current Assets
  - Assets that are used year after year to produce your product or crops
    - Land, buildings, greenhouses, warehouses
    - Equipment, vehicles, tools
    - Breeding livestock (cows/bulls, sows/boars)
  - They usually have a useful life of greater than 1 year
  - They are usually valued at their market value
    - What they could be reasonably sold for



## Sections of a Balance Sheet

- Current Liabilities
  - Liabilities that are scheduled to be repaid within 1 year
  - Examples:
    - Accounts payable – to your suppliers
    - Credit card balances
    - Operating loan principal
    - Portion of loan principal that is due within 1 year
    - Unpaid interest owed as of that day
  - These are “short-term” debts owed to others as of the day of the balance sheet



## Sections of a Balance Sheet

- Non-Current Liabilities
  - Liabilities that you will still owe after the next year
  - The portion of loans that are scheduled to be paid after this year
    - Equipment loans
    - Mortgages
    - Personal loans



## Net Worth

- Net Worth (Owners Equity)
  - This represents how much you are “worth” in dollars
  - $Net\ Worth = Total\ Assets - Total\ Liabilities$
  - You want to see your Net Worth increasing every year



## Balance Sheet

- Helps evaluate Liquidity and Solvency
  - Liquidity = ability to meet short-term obligations as they come due, without having to sell productive assets
    - Involves Current Assets & Current Liabilities
  - Solvency = ability to meet all obligations as they come due
    - Involves Total Assets & Total Liabilities

