Lesson 3 - Balance Sheet

Bell Ringer: Thinking back to the last lesson on business types think about 1-2 businesses in your county or town and name their type of Business Organization.

A. Section 1 – Review Key Financial Terms from Lessons 1 and 2 (Est. time 5 minutes)

1. Revenues
2. Operating or Variable Expenses
3. Overhead or Fixed Expenses
4. Gross Margin
5. Profit or Net Income
6. Assets
7. Liabilities
8. Net Worth or Owners Equity
9. Sole Proprietorship
10. General Partnership
11. Limited Partnership
12. C-corporation
13. S-corporation
14. Limited Liability Company
15. Unlimited Liability vs Limited Liability

B. Section 2 - Define A Balance Sheet (Est. time 15-20 minutes)

1. A Balance Sheet is a list of every asset (and the asset values) that the business owns on a given date. It also includes a list of every liability the business owes on that given date. The balance sheet shows how much equity (Owners Equity = Total Assets – Total Liabilities) an owner has in the business. A balance sheet is called a "snapshot" of a business' financial condition because it just looks at what the business owns and owes on one specific day.
2. Another way to define a balance sheet is that it shows what assets a business has and how the business is paying for those assets. It can pay with its money (Equity or Net Worth) or with someone else's money (Liabilities).
3. Balance sheets can also be for a person or a household rather than for a business. In this case, it includes all of the items (assets) that a person or household owns on a given day. It also includes a list of all the debts (liabilities) that the person or household owes on that day.
4. Balance Sheets are usually required by lenders as a key part of loan applications. Lenders use balance sheets to analyze the financial condition of a business and to identify some of the strengths and weaknesses of the business.
5. Business owners & managers should also use balance sheets to analyze the financial strengths and weaknesses of the business.
6. Show examples of the personal balance sheet and the business balance sheet
   a. each shows the assets owned as of that day
      i. NOT what they will have in the future – what they have today
      ii. I like to tell students that assets are anything they can physically touch that day
         - cash, car, house, inventories, etc.
         - Note – there are some assets that you can't actually touch

- Accounts Receivable and Prepaid Expenses (rent, insurance) are examples

b. each shows liabilities that are owed as of that day
   i. NOT what they will owe in the future – what they owe today
      - Another way to view this is "if I were to pay off my liabilities today, how much would I have to pay?"

c. For the Personal Balance Sheet
   i. Cash on hand = the value of coins & dollars on hand that day
   ii. Investments = the value of any financial investments he owns on that day
   iii. Supplies = the value of household supplies (food, office supplies, etc.) that day
   iv. Auto = the market value of the car on that day (what it could be sold for)
   v. Household furnishings = furniture, clothes, collections, art, decorations, etc.
   vi. House = the market value of the house that day
      - Lawn Equipment = market value of lawn mowers, trimmers, edgers, rakes, etc.
   vii. Tools = the value of all other tools

   viii. Credit Card Balance = the amount owed on the credit card as of that day
   ix. Taxes Payable (Property taxes) = the amount on taxes you owe as of that day
   x. Loan Principal Due This Year = the portion of the loans you are scheduled to pay within the next 12 months
   xi. Auto Loan = the amount of the auto loan you will still owe after this year's payments are made
   xii. Home Mortgage = the amount of the mortgage you will still owe after this year's payments are made

   xiii. **Net Worth (Owners' Equity)** = Total Assets – Total Liabilities
      - This is a measure of your financial value. You want to see this number increasing every year

d. For the Business Balance Sheet
   i. Cash on hand = coins and dollars on hand. Also known as "Petty cash"
   ii. Plants Ready For Sale = the value of all plants that are ready to be sold to customers
   iii. Growing Plants = the value of all plants that are being grown and are not ready to be sold yet. This is usually just the total of the expenses used to grow the crops to that point in time (seed, fertilizer, water, pots, etc.)
   iv. Accounts Receivable (from Lesson 2) = the amount of money still owed to the business for products already sold to the customer or for services already provided. This is for any sales that are made "on credit" or "on account"
   v. Supplies = office supplies, fertilizer, seed, etc.
   vi. Non-current Assets are valued at their market value (what they could be sold for)

   vii. Wages Payable = money that is owed to the hired labor for work they have performed. An example would be for a firm that pays its employees on the first of every month. If they have worked for 2 weeks (at the date of the balance sheet) and have not yet been paid, you owe them 2 weeks' worth of pay.
   viii. Operating Loan = money borrowed to pay for operating expenses (inventory, supplies, hired labor, etc. – refer to Lesson 2 for examples/definition of operating expenses). An operating loan is usually repaid within 1 year.

ix. Interest on the Operating Loan (also called "Accrued Interest") = interest that you owe (but haven't paid yet) on the operating loan as of that day. It is NOT how much interest you might owe over the remainder of the year – it is just the interest that you owe as of the date on the balance sheet.

x. Loan Principal Due This Year = the portion of the loan that is scheduled to be repaid within the next 12 months. "Principal" is a term that refers to the money borrowed.

C. Section 3 - Discuss the Sections of a Balance Sheet (Est. time 15-20 minutes)

1. Current assets
    a. Current assets are assets that will be used up as a part of the production process (supplies, fertilizer, seed) or assets that are meant to be sold within the next year (crops in the bin, feeder livestock, inventory that is ready for sale).
    b. Examples
        i. cash, money in checking & savings accounts, prepaid expenses (rent, insurance)
        ii. fertilizer, seed, chemicals, plants
        iii. inventories of items you made or purchased and intend to resell
            - plants, shoes, food items, etc.
2. Non-current assets (I'd not go into intermediate & long term assets – keep it simple)
    a. Non-current assets are equipment and facilities that are used to produce your product. These assets usually have a normal life of greater than 1 year. These assets are NOT purchased to be resold, they are purchased to use in the production process. If you sell these assets (without replacing them), you are reducing your ability to produce.
    b. Examples
        i. Land, buildings, greenhouses
        ii. Equipment, tractors, tools
        iii. breeding livestock (cows/bulls, sows/boars, ewes/rams, etc.)
3. Current liabilities
    a. Current Liabilities are liabilities that are scheduled to be repaid within the next 12 months
    b. Examples
        i. Credit card balances that you have not paid yet
        ii. Property taxes that have not been paid yet
        iii. Wages payable, operating loan balance, loan principal due within 12 months
4. Non-current liabilities
    a. Non-current liabilities are any liabilities that are not scheduled to be repaid within the next 12 months. This is primarily the portion of any loan that is not to be repaid this year.
5. Exercise on classifying assets & liabilities, calculating net worth and working capital

D. Section 4 - The balance sheet is used to calculate (Est. time 5-10 minutes):

a. Liquidity – the ability of the business to pay its upcoming liabilities (loan payments, property taxes, etc.) without having to sell any of its non-current assets. For example, a dairy farm is considered to be liquid if it has enough cash on hand to pay its bills each month. An illiquid (or non-liquid) farm doesn't have enough cash to pay its bills on time, so it might resort to selling cows or land to get the cash needed to pay the bills.

b. Solvency – the ability to repay, or “cover”, all of the liabilities of the household or of the business with the total assets. If your Net Worth (Owners Equity) is negative, you are “insolvent” (this means your liabilities are greater than your assets). You want to see your Net Worth increasing each year.

Materials: **Example balance sheets**
PowerPoint Presentation on Balance Sheets
Note Organizer
In Class Exercise and Key
Homework Exercise and Key
Take Home Reading
Optional Reading for Agricultural Balance Sheets
- may help the instructor understand them better

Personal Balance Sheet

Date: August 30, 2023

Assets		Liabilities	
Current Assets		**Current Liabilities**	
Cash on hand	$100	Credit Card Balance	$400
Checking Account	$2,000	Taxes Payable	$1,000
Savings Account	$5,000	Loan Principal Due This Year	$7,000
Investments (Stocks, bonds)	$15,000		
Supplies	$500		
Total Current Assets	$22,600	Total Current Liabilities	$8,400
Non-Current Assets		**Non-Current Liabilities**	
Auto	$14,000	Auto Loan	$8,000
Household furnishings	$25,000	Home Mortgage	$85,000
House	$175,000		
Land	$5,000		
Lawn Equipment	$3,000		
Tools	$2,000		
Total Non-Current Assets	**$224,000**	**Total Non-Current Liabilities**	**$93,000**
		Total Liabilities	**$101,400**
		Net Worth (Owners Equity) (Total Assets - Total Liabilities)	**$145,200**
Total Assets	**$246,600**	**Total Liabilities & Net Worth**	**$246,600**

Business Balance Sheet
for
Terry's Landscaping Business

Date: August 30, 2023

Assets		Liabilities	
Current Assets		**Current Liabilities**	
Cash on hand	$5,000	Credit Card Balance	$2,400
Checking Account	$25,000	Taxes Payable	$5,000
Savings Account	$40,000	Wages Payable	$10,000
Plants Ready for Sale	$150,000	Operating Loan	$80,000
Growing Plants	$45,000	Interest on Operating Loan	$400
Accounts Receivable	$35,000	Loan Principal Due This Year	$53,000
Investments (Stocks, bonds)	$60,000	Interest on Loan Principal	$1,400
Supplies	$500		
Total Current Assets	$360,500	Total Current Liabilities	$152,200
Non-Current Assets		**Non-Current Liabilities**	
Truck	$25,000	Truck loan	$9,000
Trailer	$12,000	Equipment loan	$18,000
Mowers & equipment	$32,000	Mortgage (land & buildings)	$142,000
Skidloader	$5,000		
Office Equipment	$3,000		
Tools	$2,000		
Greenhouse & Office Bldg.	$115,000		
Land	$60,000		
Total Non-Current Assets	**$254,000**	**Total Non-Current Liabilities**	**$169,000**
		Total Liabilities	**$321,200**
		Net Worth (Owners Equity) (Total Assets - Total Liabilities)	**$293,300**
Total Assets	**$614,500**	**Total Liabilities & Net Worth**	**$614,500**

Business Balance Sheet

Date: August 30, 2023

Assets		Liabilities	
Current Assets		**Current Liabilities**	
Total Current Assets	$0	Total Current Liabilities	$0
Non-Current Assets		**Non-Current Liabilities**	
Total Non-Current A	**$0**	**Total Non-Current Liabilities**	**$0**
		Total Liabilities	**$0**
		Net Worth (Owners Equity) (Total Assets - Total Liabilities)	**$0**
Total Assets	**$0**	**Total Liabilities & Net Worth**	**$0**

INTRODUCTION TO BALANCE SHEETS

Balance Sheet

- List of your assets, liabilities, and net worth at a <u>certain point in time</u>
  - *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

Balance Sheet-Note Organizer

A Balance Sheet lists value of the ___________________________________ owned by a business and the value of the ________________________________ that the business owes to it lenders. The _______ ________________________________ of the business shows how much the owners have invested into the business as of that day.

A _____________________ _________________________ is something that the business owns and will use up within the next 12 months. Examples include supplies that you have on hand, feed inventories, or accounts receivable.

A _____________________ _________________________ is something that the business owns that lasts for more than one year. Examples include machinery and equipment, buildings, and land.

A _____________________ _________________________ is something that the business owes to someone and it will be paid within the next 12 months. Examples include accounts payable, loan principal that is to be paid this year, and accrued interest.

A _____________________ _________________________ is something that the business owes to someone over the next several years, but it will not be repaid within the next 12 months. Examples include loan principal on a tractor loan that you owe over the next 5 years.

Balance Sheet- Note Organizer (Key)

A Balance Sheet lists value of the ___**Assets**________ owned by a business and the value of the ___**Liabilities**____________ that the business owes to it lenders. The ______**Net**____ **Worth_ (or Owners Equity)** of the business shows how much the owners have invested into the business as of that day.

A __**Current**_______ ______**Asset**_________ is something that the business owns and will use up within the next 12 months. Examples include supplies that you have on hand, feed inventories, or accounts receivable.

A __**Non-Current**__ __**Asset**_________ is something that the business owns that lasts for more than one year. Examples include machinery and equipment, buildings, and land.

A __**Current**_______ ______**Liability**_______ is something that the business owes to someone and it will be paid within the next 12 months. Examples include accounts payable, loan principal that is to be paid this year, and accrued interest.

A __**Non-Current**__ __**Liability**_______ is something that the business owes to someone over the next several years, but it will not be repaid within the next 12 months. Examples include loan principal on a tractor loan that you owe over the next 5 years.

Balance Sheet In-Class Exercise

Determine where the following items would belong on a balance sheet for a greenhouse/floral shop. Use the following classifications:

CA = Current Asset	CL = Current Liability	NA = Not Applicable
NCA = Non-Current Asset	NCL = Non-Current Liability	

_______ $800 of cut flowers that are ready to be sold

_______ $20,000 of operating loan that is still owed to the bank

_______ $200,000 of mortgage (loan) that is due after the next year

_______ $5,000 of wages that are owed to the workers

_______ $3,000 of cash in the cash register

_______ $265,000 worth of greenhouse, land, and other buildings

_______ $25,000 of seed and fertilizer to be used to grow plants

_______ $45,000 of equipment loans that will not be repaid within the next 12 months

_______ $75,000 of equipment (fork lift, carts, delivery truck, etc.)

_______ $35,000 of money owed to the business from "credit sales"

_______ $125,000 of operating expenses paid over the year (utilities, labor, fertilizer, etc.)

_______ $4,500 of accrued interest (interest owed but not yet paid)

_______ $15,000 in the business checking account

_______ $300,000 of revenues from sales throughout the entire year

Use the above assets and liabilities to create a balance sheet for this flower store.

A convenience store has total assets of $750,000. As of today, the owner still owes $200,000 of liabilities (loans, accounts payable, etc.) to her lenders. Calculate this owner's Net Worth in her business on this day.

Two years later this convenience store has total assets of $800,000 and total liabilities of $100,000. Has the owner's Net Worth increased (improved) or decreased (declined)?

Increased Decreased

Balance Sheet In-Class Exercise (Key)

Determine where the following items would belong on a balance sheet for a greenhouse/floral shop. Use the following classifications:

CA = Current Asset   CL = Current Liability   NA = Not Applicable

NCA = Non-Current Asset   NCL = Non-Current Liability

CA — $800 of cut flowers that are ready to be sold

CL — $20,000 of operating loan that is still owed to the bank

NCL — $200,000 of mortgage (loan) that is due after the next year

CL — $5,000 of wages that are owed to the workers

CA — $3,000 of cash in the cash register

NCA — $265,000 worth of greenhouse, land, and other buildings

CA — $25,000 of seed and fertilizer to be used to grow plants

NCL — $45,000 of equipment loans that will not be repaid within the next 12 months

NCA — $75,000 of equipment (fork lift, carts, delivery truck, etc.)

CA — $35,000 of money owed to the business from "credit sales" (Accounts Receivable)

NA — $125,000 of operating expenses paid over the year (utilities, labor, fertilizer, etc.)
- These expenses do NOT all occur on the day of the balance sheet. You would only include the amount of fertilizer, seed, etc. that is on hand that day.

CL — $4,500 of accrued interest (interest owed but not yet paid) on loans

CA — $15,000 in the business checking account

NA — $300,000 of revenues from sales throughout the entire year
- These revenues do NOT all occur on the day of the balance sheet. You would only include the amount of cash that is on hand that day.

Use the above assets and liabilities to create a balance sheet for this flower store.
See the Balance Sheet Exercise - Key worksheet in the Lesson 3 Excel file

A convenience store has total assets of $750,000. As of today, the owner still owes $200,000 of liabilities (loans, accounts payable, etc.) to her lenders. Calculate this owner's Net Worth in her business on this day.

Net Worth = Total Assets – Total Liabilities
= $750,000 - $200,000 = $550,000

Two years later this convenience store has total assets of $800,000 and total liabilities of $100,000. Has the owner's Net Worth increased (improved) or decreased (declined) over the past two years?

Increased Decreased

Net Worth = $800,000 - $100,000 = $700,000. This is larger than the $550,000 Net Worth from 2 years ago

Balance Sheet Homework Exercise

Use the following information to construct a balance sheet for Joe's Sporting Goods business for January 1, 2017.

First, classify these items in Current Assets, Non-Current Assets, Current Liabilities or Non-Current Liabilities.

CA = Current Asset	CL = Current Liability	NA = Not Applicable
NCA = Non-Current Asset	NCL = Non-Current Liability	

_______ $40,000 of loan payments due within the next 12 months

_______ $350,000 building & land for the store and parking lot

_______ $50,000 of operating loan that is still owed to the bank – used to purchase inventory

_______ $150,000 of mortgage (loan) on the building that is due after the next year

_______ $8,000 of cash in the cash register

_______ $85,000 of furniture, office equipment, and display racks

_______ $80,000 of shoes, clothing, and sporting gear in inventory, ready to be sold.

_______ $45,000 of loans to buy the furniture & display racks that is not due within the next 12 months

_______ $25,000 of accounts receivable from sales to a high school baseball team

_______ $10,000 owed to an advertising company for a recent radio commercial

_______ $7,500 of accrued interest (interest owed but not yet paid)

_______ $3,000 of wages that are owed to the workers

_______ $35,000 in the business checking account

Use the above assets and liabilities to create a balance sheet for Joe's Sporting Goods store. Use the attached blank balance sheet

Balance Sheet

Joe's Sporting Goods

Date: ______________

Assets		Liabilities	
Current Assets		**Current Liabilities**	
____________________	__________	____________________	__________
____________________	__________	____________________	__________
____________________	__________	____________________	__________
____________________	__________	____________________	__________
____________________	__________	____________________	__________
____________________	__________	____________________	__________
____________________	__________	____________________	__________
____________________	__________	____________________	__________
____________________	__________	____________________	__________
____________________	__________	____________________	__________
Total Current Assets	__________	**Total Current Liabilities**	__________
Non-Current Assets		**Non-Current Liabilities**	
____________________	__________	____________________	__________
____________________	__________	____________________	__________
____________________	__________	____________________	__________
____________________	__________	____________________	__________
____________________	__________	____________________	__________
____________________	__________	____________________	__________
____________________	__________	____________________	__________
____________________	__________	____________________	__________
Total Non-Current Assets	__________	**Total Non-Current Liabilities**	__________
		Total Liabilities	__________
		Net Worth (Owner's Equity)	
Total Assets	__________	**=Total Liabilities & Net Worth**	__________

From Joe's balance sheet:

Is Joe's business liquid or not liquid? How did you determine this?

Is Joe's business solvent or insolvent?   How did you determine this?

Assume Joe sells all of his business assets today and repays all of his liabilities. How much money will he have left over after all the liabilities are repaid? Where can you find this number on his balance sheet?

Balance Sheet Homework Exercise (Key)

Use the following information to construct a balance sheet for Joe's Sporting Goods business for January 1, 2017.

First, classify these items in Current Assets, Non-Current Assets, Current Liabilities or Non-Current Liabilities.

CA = Current Asset	CL = Current Liability	NA = Not Applicable
NCA = Non-Current Asset	NCL = Non-Current Liability	

CL $40,000 of loan payments due within the next 12 months

NCA $350,000 building & land for the store and parking lot

CL $50,000 of operating loan that is still owed to the bank – used to purchase inventory

NCL $150,000 of mortgage (loan) on the building that is due after the next year

CA $8,000 of cash in the cash register

NCA $85,000 of furniture, office equipment, and display racks

CA $80,000 of shoes, clothing, and sporting gear in inventory, ready to be sold.

NCL $45,000 of loans to buy the furniture & display racks that is not due within the next 12 months

CA $25,000 of accounts receivable from sales to a high school baseball team

CL $10,000 owed to an advertising company for a recent radio commercial

CL $7,500 of accrued interest (interest owed but not yet paid)

CL $3,000 of wages that are owed to the workers

CA $35,000 in the business checking account

Use the above assets and liabilities to create a balance sheet for Joe's Sporting Goods store. Use the attached blank balance sheet

Balance Sheet

Joe's Sporting Goods

Date: January 1. 2023

Assets
Liabilities

Current Assets		**Current Liabilities**	
Cash in Register	$8,000	Loan Payments Due	$40,000
Inventories	$80,000	Operating Loan	$50,000
Accounts Receivable	$25,000	Accounts Payable	$10,000
Checking Account	$35,000	Accrued Interest	$7,500
		Wages Payable	$3,000
Total Current Assets	$148,000	**Total Current Liabilities**	$110,500
Non-Current Assets		**Non-Current Liabilities**	
Building & Land	$350,000	Mortgage Remaining	$150,000
Furniture, Displays	$85,000	Furniture Loan Rem.	$45,000
Total Non-Current Assets	$435,000	**Total Non-Current Liabilities**	$195,000
		Total Liabilities	$305,500
		Net Worth (Owner's Equity)	$277,500
Total Assets	$583,000	=**Total Liabilities & Net Worth**	$583,000

From Joe’s balance sheet:

Is Joe’s business liquid or not liquid? How did you determine this?

Yes, it is liquid. The Current Assets ($148,000) are greater than the Current Liabilities ($110,500).

Is Joe’s business solvent or insolvent?   How did you determine this?

It is solvent. The Total Assets are greater than the Total Liabilities. This means the Net Worth is greater than zero.

Assume Joe sells all of his business assets today and repays all of his liabilities. How much money will he have left over after all the liabilities are repaid? Where can you find this number on his balance sheet?

He will have approximately $277,500 left over. If he receives $583,000 from the sale of his assets and he pays all $305,500 of liabilities – he will have $277,500.

You can find this number by looking at the Net Worth on the balance sheet.

The Balance Sheet- Student Driven Lesson and Activities

Student Driven Activity: Develop your own scenario to be used with a balance sheet. Be sure to include all portions of the assets and liabilities. Use the example scenario from class to make sure you've included all pieces. The teacher will collect everyone's scenarios and will hand them back out to others in the class to problem solve and create a balance sheet with.

ALTERNATIVE Student Driven LESSON: Have students read the Take Home Reading portion of the lesson. After reading through and using note taking techniques such as highlighting definitions or pertinent information or underlining examples have them divide up into 5 groups. Each group will prepare a short presentation on ONE of the following:

1. Current Assets
2. Non-Current Assets
3. Current Liabilities
4. Non-Current Liabilities
5. Net Worth/Liquidity/Solvency

Be sure to utilize examples of each section so the students will have a place to start when working through the balance sheet worksheets.

The Balance Sheet-Take Home Reading

Have you had to go to the doctor's office recently? Chances are good that the first thing that happened was that your doctor or nurse measured your vital signs as soon as you got there. They measured your pulse rate, your blood pressure, your temperature, and your weight. These are records that show your condition as of today. Then, the doctor probably looked at your historical medical records. These historical records show what has happened to you in the past (diseases, broken bones, etc.), as well as what your vital signs were at those times. Both of these records (your current vital signs and your medical history) give the doctor the information needed to make the best decisions for your health. The same is true for business managers – they need information about the current condition of the business as well as the historical performance of the business to make good decisions.

A good place to get this information is from your business financial records. Financial records help a manager see how the business has performed in the past and the condition of the business today. This helps the manager to determine what the business does well (its strengths) and what it needs to improve (its weaknesses). Once the manager knows these strengths and weaknesses he/she can make decisions to improve the business so that it will be successful over the years.

Let's start analyzing a business in the same manner as a doctor – let's look at the current condition of the business by taking its "vital signs". We do this with a financial statement called the **Balance Sheet**. A balance sheet is a list of all of the assets and liabilities of a business at one point in time – that is, on one specific day. You can make a balance sheet for yourself by getting a piece of paper and making a list of all the things that you own today – clothes, money in your savings account, books, tools, coin collections, iPods, etc. These are your assets. On the other side of the paper list all of the money that you owe to others – money you borrowed from your grandparents, a loan that you have on your cattle or your car, etc. These are your liabilities – what you owe to other people.

After you make this list, go back a put a dollar value on each asset to show what it is worth today. We call this the market value of the asset – what it is worth if you were to sell it in an open market. Also, put a dollar value on your liabilities – how much money do you owe to other people? You have just completed most of your balance sheet – it's that simple!

To finish your balance sheet, add the value of all of your assets. We call this "Total Assets". Then, calculate the total of your liabilities. You guessed it,that is called "Total Liabilities". The final calculation is your Net Worth. Remember that your Net Worth is the dollar value that shows how much you are worth after you pay all of your liabilities. From a business standpoint, Net Worth is the amount that the owner has invested in the business. Here's another way to look at Net Worth – Assume that a business owner wants to get out of business. When he sells his business assets he receives money that is equal to his Total Assets. He then uses that some of that money to pay all of his loans and debts (his Liabilities) that he owes as of that day. The money that he has left over in his hand after paying his liabilities is called his Net Worth – it represents how much he has invested in his business over time.

To calculate Net Worth, simply subtract Total Liabilities from Total Assets:

Net Worth = Total Assets – Total Liabilities

This equation is always true. We can rearrange this equation to get the following:

Total Assets = Total Liabilities + Net Worth

Does this equation make sense to you? In a very simple manner, it means that you have two ways of paying for things that you own (your Assets) – you can use your money (your Net Worth) or you can use someone else's money in the form of a loan (Liabilities). For example, think about buying a car. The purchase price of the car (the asset) is $20,000. You decide to use your savings to make a down payment of $5,000 (net worth) and get a loan for the remaining $15,000 (liability). You see:

Total Assets =   Total Liabilities + Net Worth

The Value of the Car = The Amount of the Loan + The Amount of Down Payment

$20,000 car value = $15,000 loan   + $5,000 down payment

A Balance Sheet lists the assets of the business and the liabilities of the business on one specific day. You might say that it lists "what the business owns and what the business owes" on a given day. Or, you might say that it shows "what the business owns and how it is paying for those assets – with borrowed money or with the owner's money." The reason it is called a Balance Sheet is because the Total Assets are always "balanced" by the Total Liabilities + Net Worth.

A business Balance sheet is relatively easy to construct. We sort the assets into two main categories called Current Assets and Non-Current Assets. Current Assets are assets that will be used up or sold ("converted to cash") within the next 12 months. Examples include checking accounts, supplies on hand, inventory held for sale, and accounts receivable. Non-Current Assets are assets that are used by the business over several years – these would include land, buildings, machinery, equipment, and breeding livestock. We add Total Current Assets and Total Non-Current Assets to get Total Assets. This is the market value of all of the assets owned by the business on that day.

We do the same thing for the Liabilities. We sort them into liabilities that we will be paying within the next 12 months – we call these Current Liabilities – and into liabilities that we will be repaying after the next 12 months – these are your Non-Current Liabilities. Examples of Current Liabilities include accounts payable, loans that you used to pay for your inventories, and the portion of your long-term loans that are scheduled to be paid within the next 12 months. Non-Current Liabilities include the portion of your equipment, land, or building loans that you will still owe after the next 12 months.

Combine Total Current Liabilities and Total Non-Current Liabilities to get your Total Liabilities. This represents the total amount of money that you owe to others as of that day.

Finally, calculate your Net Worth by using the formula above: Net Worth = Total Assets – Total Liabilities. You want to see your Net Worth growing over time – this shows that your business is growing and that you are paying off your debts.

Now, let's put together a balance sheet for Greta's Green Grocery as of July 1, 2023. The first step is to make a list of all of Greta's assets, liabilities, and their values. Here's the information that Greta has provided:

Land	$100,000
Wages Payable to her workers	$2,000
Building	$250,000
Refrigerators & Freezers	$75,000
Sales Tax Payable to the state	$1,500
Inventory of Produce that she has for sale	$5,000
Inventory of Crafts that she has for sale	$15,000
Accounts Payable	$25,000 this is what Greta owes to her suppliers for products she has purchased but hasn't paid for as of today
Cash in the cash registers	$2,000
Cash in her business checking account	$45,000
Office equipment & furniture	$5,000
Accounts Receivable	$10,000 this is from sales to a local restaurant where payment has not been received by Greta as of today
Mortgage to buy the land & building	$185,000 that is due after the next 12 months
Portion of the Mortgage due this year	$25,000

Let's use this information to build a Balance Sheet for Greta. The first step is to classify these items as Assets or Liabilities. Remember, Assets are things that the business owns and uses; Liabilities are money that is owed (payable) to someone else.

Greta's Green Grocery Assets on July 1:

Land	$100,000
Building	$250,000
Refrigerators & Freezers	$75,000
Inventory of Produce that she has for sale	$5,000
Inventory of Crafts that she has for sale	$15,000
Cash in the cash registers	$2,000
Cash in her business checking account	$45,000
Office equipment & furniture	$5,000
Accounts Receivable	$10,000

Greta's Green Grocery Liabilities on July 1:

Mortgage to buy the land & building	$185,000
Portion of the Mortgage due this year	$25,000
Wages Payable to her workers	$2,000
Sales Tax Payable to the state	$1,500
Accounts Payable	$25,000

Now, let's sort the assets and liabilities into Current and Non-Current categories. Remember, Current refers to things that will be used, converted to cash, or repaid within the next 12 months. Non-Current refers to things with a life of more than 12 months.

Current Assets		Current Liabilities	
Inventory of Produce	$5,000	Wages Payable	$2,000
Inventory of Crafts	$15,000	Sales Tax Payable	$1,500
Cash in the cash registers	$2,000	Accounts Payable	$25,000
Cash in her checking account	$45,000	Portion of Mortgage	
Accounts Receivable	$10,000	due this year	$25,000
Non-Current Assets		**Non-Current Liabilities**	
Land	$100,000	Mortgage Remaining	$185,000
Building	$250,000		
Refrigerators & Freezers	$75,000		
Office equipment & furniture	$5,000		

Now, to complete Greta's Balance Sheet we just need to put a title on it and calculate the totals and the net worth.

Greta's Green Grocery
Balance Sheet
July 1, 2023

Assets		**Liabilities**	
Current Assets		**Current Liabilities**	
Inventory of Produce	$5,000	Wages Payable	$2,000
Inventory of Crafts	$15,000	Sales Tax Payable	$1,500
Cash in the cash registers	$2,000	Accounts Payable	$25,000
Cash in her checking account	$45,000	Portion of Mortgage due this year	$25,000
Accounts Receivable	$10,000		
Total Current Assets	**$77,000**	**Total Current Liabilities**	**$53,500**
Non-Current Assets		**Non-Current Liabilities**	
Land	$100,000	Mortgage Remaining	$185,000
Building	$250,000		
Refrigerators & Freezers	$75,000		
Office equipment & furniture	$5,000		
Total Non-Current Assets	**$430,000**	**Total Non-Current Liab.**	**$185,000**
		Total Liabilities	**$238,500**
		Net Worth	**$268,500**
Total Assets	**$507,000**	**Total Liab. & Net Worth**	**$507,000**

And there is Greta's business balance sheet. Notice that the Total Assets ($507,000) are equal to the Total Liabilities ($238,500) plus Greta's Net Worth ($268,500). So her balance sheet actually balances!

Balance Sheets are important financial statements for both managers and lenders. We use this statement to calculate the Liquidity and the Solvency of the business. Liquidity is a term that refers to how easily you can "get your hands on cash" to pay your upcoming liabilities without having to sell your productive assets (your non-current assets). We measure liquidity by comparing your Current Assets to your Current Liabilities. In Greta's business, her Current Assets are $77,000 are greater than her Current Liabilities are $53,500. This means that if she had to pay all of her Current Liabilities today, she has enough Current Assets to generate enough the cash needed to pay those liabilities. She can sell her inventories and collect her accounts receivables to generate cash. Combined with her cash in the registers and her checking account, she has more than enough money to pay her $53,500 of Current Liabilities. We'll talk about other measures of Liquidity later in the semester.

Solvency measures how much of your business you actually own compared to how much money you owe to others. To measure Solvency we look at the Net Worth of the business. If the Net Worth is greater than zero that means your Total Assets are greater than your Total Liabilities – this means that you are "solvent". If your Net Worth is less than zero (your Total Assets are less than your Total Liabilities) you are "insolvent" – this is a bad situation! Lenders like to see your solvency positive and growing over time. Greta's Net Worth is a positive $268,500 which indicates that she is solvent. We'll show you some other measures of Solvency later, but for now just remember than you are solvent if your Net Worth is greater than zero.

The Agricultural Balance Sheet

THE BASICS

The **balance sheet** is a statement of financial position at a specific point in time. The balance sheet lists everything that is owned and everything that is owed by the business on a given date. This is a method of determining what portion of the business belongs to the owners and what portion belongs to investors or creditors. A balance sheet reflects the result of all past transactions in the business, but not how the current financial position was obtained.

The balance sheet consists of three main parts:

- ***Assets:*** Assets include anything that is owned or controlled by the business that has monetary value. Assets can be valued at either cost or market value, depending on what is preferred by the person preparing or requesting the balance sheet. Agricultural assets are typically valued at market value. Assets valued on a cost basis are listed at the historical cost (purchase price) minus any accumulated depreciation. Market valued assets are listed at fair market value given the asset's condition, location, or other relevant attributes. This discussion will use market-valued assets, which is common practice in agricultural finance. Assets should be divided into two categories: current and non-current. It has been convention in agriculture to separate assets into three categories: current, intermediate, and long term. However, the Farm Financial Standards Council recommends a two-category balance sheet that is more consistent with general business. Nevertheless, it is recognized that if a three-category classification gives the reader better insight, it is acceptable as long as the definitions of the classifications are clearly stated. Generally, intermediate assets would have a life between one and ten years, while long-term assets would have a life greater than 10 years. A more detailed discussion of asset classification will follow.
- ***Liabilities:*** Liabilities include all debts, or claims against the business by creditors, suppliers, or any other person or institution to which a debt is owed. Liabilities are either classified into 2 categories (current, non-current) or 3 categories (current, intermediate, long term). Liabilities include principal outstanding on loans, accrued interest, and accounts payable.
- ***Owner Equity:*** Owner equity, or net worth, is the difference between total assets and total liabilities. It reflects the owner's stake in the business and includes investment capital and retained profits. In a corporate business structure, owner equity will include stockholder's equity, additional paid-in-capital, and retained earnings.

The basis for the balance sheet is the fundamental accounting equation:

Assets = Liabilities + Owner Equity

This equation shows that the total assets of a business belong partially to creditors (Liabilities) and partially to the owners (Owner Equity). This equation always holds true.

The ownership structure of agricultural businesses is becoming increasingly complex. Combinations of partnerships, corporations, and limited liability companies are quickly emerging with one entity holding operating assets and another controlling the capital assets. For these reasons it is essential to identify for what entity the balance sheet is being prepared. Despite the complexity, there are three common entities for which a balance sheet can be prepared. First, a business balance sheet including only business assets and liabilities can be prepared. Second, a personal balance sheet excluding business assets and liabilities may be desired. Finally, a combined business and personal balance sheet can be prepared. This type of consolidated statement is very popular for sole proprietorships and will be the focus of discussion.

For analysis purposes, the timing of the balance sheet is important. Balance sheets are most useful if they coincide with the timing of the income statement, usually one calendar year. The accrual adjusted income statement, combined with other data, explains the changes in the beginning and end of year balance sheets. However, a balance sheet may be desired at other times, such as a current statement to accompany a credit request.

ASSETS

Current Assets

Current assets are the first classification of assets appearing on the balance sheet. A current asset includes items such as cash or assets than can be turned into cash within a year without disrupting normal business operations. Current assets also include any items that will be consumed within a year. Examples of current assets include:

- ***Cash*** – Any cash on hand or in checking or savings accounts
- ***Marketable Securities*** – Stock or other securities that are publicly traded and can be easily turned to cash
- ***Accounts Receivable*** – Any amounts owed to the business for products or services provided for which payment has not been received

- ***Marketable Inventories*** – Crops, livestock, or other products held for resale, not breeding livestock, as they are considered non-current assets
- ***Cash Invested in Growing Crops*** – The dollar amount of inputs invested in growing crops after planting, but before harvest
- ***Supplies*** – Any items such as fertilizer, chemicals, feed, twine, parts, etc.
- ***Prepaid Expenses*** – Items that have been paid for but not yet received in full, examples include insurance premiums, rent or lease payments, and certain taxes

Non-Current Assets

The second classification of assets is non-current assets. These assets support production activities and are considered to have a life greater than one year. If using the traditional balance sheet structure, these assets would include the intermediate and long-term categories. In agriculture, common non-current assets include machinery and equipment, breeding livestock, and securities that are not readily marketable. Although breeding livestock could be sold for cash within a year, it is not considered a current asset. Outside of normal replacement patterns, sales of breeding stock to any great degree would disrupt the normal operation of the business, and therefore are considered non-current assets. Non-marketable securities, such as stock in cooperatives or lending institutions such as the Farm Credit System, and business retirement plans are not readily marketable; thus they are classified as non-current assets. If a consolidated business and personal balance sheet is prepared, there may also be some non-current personal assets such as household furnishings and equipment, personal and recreational vehicles, and personal retirement accounts. Another major category of non-current assets is real estate including land, buildings, and improvements. A personal residence may also be included if the balance sheet is prepared for a consolidated entity.

Valuation Issues

A balance sheet is only as valuable as the quality of the information used to prepare it. When valuing assets, a conservative approach is preferred, based upon appraisals and recent sales data in the market. It is important for the person preparing a balance sheet to distinguish between possession and ownership of assets. If a partial interest in property is owned, then only that portion should be reflected on the balance sheet. Ownership issues also arise in the case of life estates and lease agreements. When crop and livestock inventories are included on the balance sheet, they should be accompanied by a schedule detailing the amount and values of each item, indicating how the total value was derived.

It is not uncommon in agriculture for a person to be involved in more than one business venture. It is important to disclose information about assets and liabilities associated with other businesses. One business may show significant equity while another is heavily leveraged. Lenders are likely to request a consolidated balance sheet that reflects all business and personal assets and liabilities.

There are numerous valuation issues that arise when preparing agricultural balance sheets that exceed the scope of our discussion here. However, a controversial valuation issue is that of capital leases. It is becoming increasingly popular for agricultural producers to lease capital items such as tractors, combines, irrigation equipment, and storage structures. In the past, lease obligations were simply included as footnotes to the balance sheet. However, there is a growing opinion that the lease obligations should be placed directly on the balance sheet. To begin our discussion, we must distinguish between capital leases and operating leases. Operating leases allow the lessee the right to use an asset for a relatively short period of time. Operating leases should simply appear as a note to the balance sheet, similar to the cash rental of farmland. A capital lease is a long-term lease that is actually a tool for financing the acquisition of an asset. In order to be considered a capital lease, the agreement must meet the following ownership tests:

- The lease transfers ownership of property to the lessee at the end of the term.
- The lease contains a bargain purchase option.
- The term of the lease is at least seventy-five percent of the estimated economic life of the property.
- The present value of the minimum lease payment equals or exceeds ninety percent of the fair market value of the leased property.

A capital lease must be reflected on both the asset and liability sides of the balance sheet. We treat the capital lease similar to an equal payment amortized loan. The lease payment is divided into equivalent "principal and interest" portions. The capital lease obligation is separated into current and non-current sections. Although there is no "interest rate" stated in the agreement, an inherent interest rate can be calculated. The leased asset, net of straight-line depreciation, is listed as a non-current asset for each year of the lease term. The "principal and interest" portions due within the year are listed as current liabilities, and the remaining lease obligation is a non-current liability.

LIABILITIES

As with assets, liabilities are classified as either current on non-current, consistent with Farm Financial Standards Council recommendations. The liability section of the balance sheet should include all obligations as of the date of the balance sheet. They are classified based on when repayment is scheduled.

Current Liabilities

Current liabilities include all debts and obligations that are due within the next 12 months. Examples of some common current liabilities are:

- ***Accounts Payable*** – Money owed to suppliers or other businesses for products or services that your business has received, but not yet made payment
- ***Operating Loans*** – Any outstanding balances on revolving or non-revolving operating lines of credit (also called Notes Payable)
- ***Principal Portion of Term Loans Due Within the Next Year*** – The total amount of principal on term loans that is due to be paid within the year
- ***Accrued Interest*** – The amount of interest that has accrued since the last payment on all loans. This is the total amount of interest that would be due if all loans were paid off as of the day of the balance sheet. It is **not** the total amount of interest due to be paid in the next 12 months.
- ***Accrued Income and Property Taxes*** – Property taxes are typically paid in a period following when they are incurred and income taxes are paid as frequent as every quarter, so the balance sheet will often reflect some accrued tax liability.
- ***Other Accrued Expenses*** – Items such as rents and leases that have been utilized, but not yet paid would be accrued expenses

- ***Credit Card Debt*** – If preparing a consolidated balance sheet, business and personal credit card debt including interest would be included as a current liability.

Non-Current Liabilities

Non-current liabilities capture all obligations that are due and payable beyond one year. The most common non-current liabilities are term loans used to finance machinery, equipment, breeding livestock, or real estate. The portion of the term loan due beyond 12 months is considered a non-current liability. Remember that the principal amount due within 12 months is a current liability.

It is common in agriculture for loans to be financed for one year with the option for renewal at the end of the year given acceptable repayment performance. If the lender is under no obligation to renew the loan at the end of the original agreement, the liability should be classified as current. This treatment may distort financial ratios, but legally the entire obligation is due at the end of one year. Loans from friends and relatives with no specified repayment plan are also considered current liabilities.

Contingent Liabilities

Another category of liabilities not yet discussed appears as a footnote to the balance sheet. Contingent liabilities include such items as guarantees (co-signed notes, etc.), pending lawsuits, and federal and state tax disputes. These items are not liabilities at the present, but the potential for an obligation exists.

OWNER EQUITY

Owner equity is a residual amount after liabilities are subtracted from assets. Owner equity reflects the owner's investment of capital into the business over time, as well as retained earnings. Retained earnings are profits that have been reinvested back into the business rather than withdrawn by the owners (or paid out in dividends in the case of a corporation).

DEFERRED TAXES

As discussed earlier, assets can be valued on the balance sheet, either on a cost or market value basis. A market value balance sheet reflects the impact of deferred tax liabilities. Deferred taxes are the federal and state taxes that would be incurred if the business were liquidated. Deferred taxes on current assets arise because many agricultural producers report income on a cash rather than accrual basis for income tax purposes. Therefore they do not pay taxes on the accumulation of crop and livestock inventories over time. Income taxes would be due if the items were liquidated because inventories are sold and the expenses associated with them have previously been deducted as cash expenses. Deferred taxes may also be present on non-current assets. Some examples of deferred tax situations are:

- Market value of machinery exceeds cost less accumulated depreciation
- Sales price of purchased breeding livestock exceeds the original cost
- Breeding livestock raised on the farm are sold
- Retirement accounts are liquidated early
- Market value of real estate exceeds cost less accumulated depreciation

Deferred taxes are a complicated topic and could have an entire discussion devoted solely to the topic. For simplicity, the case example will be based on the assumption of no deferred taxes.

Case Example:

The following pages contain a case study to illustrate the construction of a combined business and personal balance sheet for a sole-proprietorship operation. Calculations are illustrated where appropriate. Otherwise, the information has been placed in the proper categories on the balance sheet and totaled.

Nick Hokie operates a stocker cattle and beef cow-calf operation in southwestern Virginia. His wife, Polly, is a managing partner for a veterinary clinic in the region with a $35,000 annual salary. Nick and Polly are both graduates of Virginia Tech and are 35 years old. The Hokies have two sons, a 10-year-old Al and 8-year-old Clark. The Hokies rent the home in which they are currently living.

Nick rents Polly's grandparents' farm, including the machinery. He also owns a 300-acre farm. Nick purchases 400 lb. cattle in the spring each year and then sells them as 700-800 lb. cattle in the fall. He usually has about 120 head. In addition, Nick has about 75 breeding cows and 3 bulls. He raises calves for sale at 500-600 lbs. Nick also sells hay in the winter and occasionally sells high-priced bulls.

One of Nick and Polly's New Year's resolutions was to get a better grasp on their financial situation. They would like to prepare a set of financial statements. The starting point is a current balance sheet. They have provided the following information so that you can prepare a consolidated business and personal balance sheet as of January 1st.

Assets and Liabilities	Market Value on January 1st
Cash	$8,000
Accounts Receivable (Hay)	$2,100
Accounts Payable	$1,000
Credit Card Debt	$900
Marketable Securities	$12,000
Supplies	$1,200
Inventory	$4,600
1995 Dodge Ram Pickup	$16,000
1996	$6,000
Tractor	$20,000
Breeding Livestock	$30,000
IRA	$45,000
Household Goods / Personal Assets	$12,000
Land and Improvements	$225,000
Prepaid Insurance	$1,320 paid each 6/1 & 12/1, covers next 6 months
Accrued Property Taxes	$1,250 paid each 5/1 & 11/1, covers prior 6 months

Polly co-signed a $10,000 loan on a car for her youngest sister Holly.

Loan for Farm Purchase

Original Amount:	$150,000
Balance after last payment:	$126,637
Lender:	Farm Credit
Interest Rate:	9%
Term:	15 years
Annual Payment:	$18,609 each December 1st

Cattle Loan

Original Amount:	$30,000
Balance after last payment:	$13,735
Lender:	National Bank of Blacksburg
Interest Rate:	10%
Term:	5 years
Annual Payment:	$7,914 each September 1st

Tractor Loan

Original Amount:	$24,000
Balance after last payment:	$18,524
Lender:	Deere Credit
Interest Rate:	8%

Term:	3 years
Quarterly Payment:	$2,269 on 2/1, 5/1, 8/1, 11/1

Prepaid Insurance

The premium is $1,320 for six months of coverage, or $220/month ($1,320 / 6 months). The premium was last paid on 12/1. Therefore, as of 1/1, one month of the premium has been used up, and 5 months, or $1,100, is prepaid. ($220 * 5 = $1,100)

Accrued Property Taxes

Property taxes are paid "after the fact" on assets that you have owned over a period of time. The property tax is $1,250 paid every six months (or $208/month). The last payment was made on 11/1. Therefore, as of 1/1, two months of property taxes has accrued, or $417. ($208 * 2 = $417)

Loan Calculations (see handout on "4-Step Process" for explanation of procedure)

Farm

1. $126,637 x .09 = $11,397	interest
2. $18,609 - $11,397 = $7,212	principal within 1 year
3. $126,637 - $7,212 = $119,425	principal beyond 1 year
4. $11,397 / 12 x 1 = $950	accrued interest

Cattle

1. $13,735 x .10 = $1,374	interest
2. $7,914 - $1,374 = $6,540	principal within 1 year
3. $13,735 - $6,540 = $7,195	principal beyond 1 year
4. $1,374 / 12 x 4 = $458	accrued interest

Tractor

1. $18,524 x .08 = $1,482	approx. interest
2. 4 x ($2,269) - $1,482 = $7,594	principal within 1 year
3. $18,524 - $7,594 = $10,930	principal beyond 1 year
4. $1,482 / 12 x 2 = $247	accrued interest

Balance Sheet

Nick and Polly Hokie

January 1, Year X

CURRENT ASSETS		**CURRENT LIABILITIES**	
Cash	$ 8,000	Accounts Payable	$ 1,000
Accounts Receivable	$ 2,100	Credit Card Debt	$ 900
Marketable Securities	$ 12,000	Principal Due Within 1 Year	
Supplies	$ 1,200	Farm	$ 7,212
Inventory	$ 4,600	Cattle	$ 6,540
Prepaid Insurance	$ 1,100	Tractor	$ 7,594
		Accrued Interest	$ 1,655
		Accrued Property Taxes	$ 417
Total Current Assets	$ 29,000	**Total Current Liabilities**	$ 25,318
NON-CURRENT ASSETS		**NON-CURRENT LIABILITIES**	
Intermediate Assets		*Intermediate Liabilities*	
1995 Dodge Ram Pickup	$ 16,000	Remaining Principal - Cattle	$ 7,195
1992 Chevrolet	$ 6,000	Remaining Principal - Tractor	$ 10,930
Tractor	$ 20,000		
Breeding Livestock	$ 30,000	*Long-Term Liabilities*	
IRA	$ 45,000	Remaining Principal - Farm	$ 119,425
Household / Personal Assets	$ 12,000		
		Total Non-Current Liabilities	$ 137,550
Long-Term Assets			
Land and Improvements	$ 225,000	**TOTAL LIABILITIES**	$ 162,868
Total Non-Current Assets	$ 354,000	**OWNER EQUITY**	$ 220,132
TOTAL ASSETS	$ 383,000	**TOTAL LIABILITIES AND OWNER EQUITY**	$ 383,000

Note: co-signed note for $10,000 as contingent liability