THE OHIO STATE UNIVERSITY
COLLEGE OF FOOD, AGRICULTURAL, AND ENVIRONMENTAL SCIENCES

extension.osu.edu
agnr.osu.edu

The Basics of a Farm Balance Sheet

Farm Financial Series

ANR-64
Agriculture and Natural Resources
Date: 08/20/2018

Eric Richer, Assistant Professor, Agriculture and Natural Resources, Fulton County
Dianne Shoemaker, Associate Professor, Field Specialist, Dairy Production Economics

The farm balance sheet is one of three financial statements that provide critical information about a farm business. Completing an annual balance sheet, income statement, and statement of cash flows is critical to helping farm businesses understand their financial health. The balance sheet provides a picture of your farm's financial position on a specified date. The picture is painted by describing all of the assets owned by the business and listing all of the liabilities or financial obligations to others. The balance sheet is also known as the net worth statement. A well-prepared balance sheet can provide an objective measure of farm business growth, liquidity, solvency, and risk bearing capacity.

Categorizing Balance Sheet Items

Balance sheet information is organized into two columns: assets and liabilities. The column on the left describes the farm business's assets and the column on the right describes the farm business's liabilities.

Assets are items owned by the farm business that have value. They include the items that the farm uses to produce the products they sell. Assets include, but are not limited to, cash, grain and feed inventories, prepaid expenses, market livestock, breeding livestock, machinery and equipment, buildings, and farmland.

Liabilities are debts owed to others including commercial lenders, vendors, and private individuals. Debt may be used to finance asset purchases or cover cash shortfalls in the farm business. Balance sheet liabilities include outstanding financial obligations for farm operating expenses such as feed, seed, and fuel. Other liabilities may also include loans for market or breeding livestock, machinery, equipment, land, buildings, and improvements.

Total assets and liabilities on the balance sheet are used to determine the owner's equity, or net worth, of the farm business. Net worth represents the value of the business owned and free of debt. Net worth or owner's equity is a simple calculation:

Total Assets – Total Liabilities = Net Worth

Terms of Assets and Liabilities

Beyond the broad categories of assets and liabilities, the balance sheet categorizes items by terms of useful life. Useful life is the amount of time an item is likely to be utilized in the farm business. Both assets and liabilities are categorized into current, intermediate, and long, or fixed, terms of useful life. Some lenders now combine "intermediate" and "long term" into one category simply using "current" and "non-current" categories.

Current Assets—Current assets are cash or items that can be easily converted to cash in one year or less. Common current assets include cash, savings, prepaid expenses, growing crops, harvested crop inventories, market livestock, accounts receivable, seed, feed, fertilizer, and other supplies on hand.

Intermediate Assets—Intermediate assets have an assumed useful life of one to 10 years. Common intermediate assets are breeding livestock, machinery and equipment, titled vehicles, and not-readily-marketable bonds and securities.

Long-Term Assets—Long-term, or fixed, assets are typically permanent items with an assumed useful life of more than 10 years and include farmland, improvements such as tile and fence, buildings, farmsteads, capital retains, investments, and other similar items.

Current Liabilities—Current liabilities are obligations that are due and payable in the next 12 months. Common current liabilities include accounts payable (bills), credit card balances, operating lines of credit, accrued interest, and the principal due on intermediate and long-term loans in the next 12 months.

Intermediate Liabilities—Intermediate liabilities are debts that are scheduled to be paid back between 13 months to 10 years, and are usually associated with the intermediate farm assets found on the left side of the balance sheet. Common intermediate liabilities are the principal remaining on machinery and equipment loans or breeding livestock purchases.

Long-Term Liabilities—Long-term, or fixed, liabilities are debts with terms greater than 10 years. Long-term liabilities typically include farmland or building mortgages. Loans are classified as intermediate or long-term liabilities based on the original length of the loan. For instance, when there are eight years left to pay on a 20-year mortgage, it continues to be listed as a long-term liability on the balance sheet.

Keys to Completing the Balance Sheet

To develop a high-quality year-end balance sheet:

- Complete the balance sheet on the same date each year, usually as of December 31st.
- Inventory all assets, using standard weight and measure units (e.g., pounds, head, tons, bushels, bales, etc.)
- Utilize current market prices for crop and livestock inventories.
- Value growing crops at the cost of inputs.
- Include government payments, insurance indemnities, and other income yet to be received as accounts receivable.
- Apply conservative breeding livestock values, avoiding large year-to-year changes.
- Separate farm and personal assets and liabilities. Either create separate balance sheets, or itemize personal assets and liabilities as separate schedules on the balance sheet.

Balance Sheet Tools

Tools are available to assist with development of a farm business balance sheet. The Ohio Commercial Farm Account Book, available through your local OSU Extension office or extensionpubs.osu.edu, offers a paper-based version of a farm business balance sheet and supporting schedules. For those who prefer to use software programs, there are spreadsheet-based programs with templates and accounting formulas available, or there are accounting software packages linking balance sheet values with online resources. OSU Extension has a spreadsheet-based balance sheet template with farm schedules that can be found at go.osu.edu/BalanceSheet or on the farmoffice.osu.edu website under farm management tools and resources.

The most important factor for completing a quality balance sheet is to make timely, accurate, and complete entries, regardless of the method used for creating the balance sheet. Each method has drawbacks and advantages, and the choice of computer versus paper-based systems usually comes down to personal preference.

References

Hachfeld, G., D. B., Bau, C. R. Holcomb. 2016. *Balance Sheet*. Farm Financial Series, #1, University of Minnesota Extension. Available online at: extension.umn.edu/farm-finance/balance-sheet

Langemeier, M. R. 2011. *Balance Sheet—A Financial Management Tool*. MF-291, Department of Agricultural Economics, Kansas State University Extension. Available online at: agmanager.info/farm-management-guides-0/balance-sheet-financial-management-tool