Western Beef Resource Committee *Third Edition*

Cattle Producer's Handbook

Finance Section 950

Financial Statements: The Balance Sheet

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A balance sheet, or net worth statement, is one of the most important financial reports a rancher needs to prepare. The balance sheet is a statement of the financial condition of the ranch business on a specific date. To be most useful for financial analysis, it needs to be prepared on the same date each year—usually either the first or last day of the fiscal year.

The balance sheet consists of a listing of assets of the ranch business in the left column and liabilities of the business in the adjacent right column. At a minimum, assets and liabilities need to be classified into current, non-current, and nonfarm categories. If only two categories of ranch assets and liabilities are used, machinery, breeding livestock, buildings and improvements, and land should be separately disclosed in the non-current categories. Many ranchers find it easier to classify assets and liabilities into current, intermediate, long-term, and nonfarm categories. Net worth is computed at the bottom of the form (Fig. 1). The accounting equation to balance these is:

Assets - Liabilities = Net Worth

Regardless of the system used, current assets are those that are cash or readily converted to cash. Accounts receivable, feed on hand, and livestock held for sale are common items. Typical current liabilities would be your operating line, accounts due with a supplier, notes on feeder livestock, and this year's payment on any intermediate or long-term debt.

Intermediate assets are commonly those that have a 1- to 10-year life. Machinery, breeding stock, and equipment fit here. Intermediate liabilities would be notes associated with these assets.

Long-term assets commonly include real estate and improvements. Long-term liabilities would be mortgages associated with these assets.

In the Current/Non-Current form of balance sheet, many of the intermediate assets and liabilities would be considered current while the long-term would become non-current.

Assets

Current assets consist of cash and things that will be converted to cash or could be converted to cash within 1 year. Be sure to include supplies or inventory on hand, if they are significant. Current assets include livestock held for sale and feed inventory.

Valuation of current assets is relatively straightforward. The only items that may create difficulty are raised feed inventory. **In general, raised feedstocks that are expected to be fed should be priced at a consistent base value**. This base value should reflect a long-term average of market value for your area.

Purchased feed inventory is valued at the price paid for it. Raised feeds held for sale are usually valued at conservative current market value on the date the balance sheet is prepared. Livestock held for sale are valued at market value on the date that the balance sheet is prepared and **not** an estimate of weight and price when they are expected to be sold.

For intermediate or long-term assets, a dual column balance sheet with valuations for both cost and current market value is recommended by the Farm Financial Standards Committee of the American Bankers Association. Intermediate assets are the "working" inventory of a ranch. All this class of assets has a cost value and a market value.

The first asset with which we usually deal is breeding livestock. For **raised** breeding livestock, the cost value is again a "base" value. For **purchased** breeding livestock, the cost value is cost less depreciation.