## The Opening Net Worth Statement

The opening net worth statement can be seen below in Figure A1-1.

| Opening Balance Sheet or Net Worth Statement | | | |
|---|---|---|---|
| January 1, 2012 | | | |
| Assets | | Liabilities | |
| Current Assets | | Current Liabilities | |
| Cash | 10,000 | Operating Loan | 100,000 |
| Accounts Receivable | 25,000 | Accounts Payable | 30,000 |
| Inventory For Sale | 50,000 | Accrued Interest | 15,000 |
| (Grain, Livestock, Hay) | | Current Portion of the | |
| Inventory For Production | 50,000 | Term Debt - CPTD | 30,000 |
| (Seed, Feed, Supplies) | | | |
| Total Current Assets | 335,000 | Total Current Debt | 175,000 |
| Intermediate Assets | | Intermediate Liabilities | |
| Breeding Livestock | 150,000 | Loans > 1 yr < 10 yrs | |
| | | | |
| Machinery | 850,000 | 5 Year Term Loan | 80,000 |
| Quota | 800,000 | 100,000 | |
| | | Loan - CPTD | |
| Total Intermediate Assets | 1,800,000 | Total Intermediate Debt | 80,000 |
| Long Term Assets | | Long Term Liabilities | |
| Buildings | 500,000 | Loans > 10 years | |
| Land | 1,500,000 | 20 Year Term Loan | 190,000 |
| | | 200,000 | |
| | | Loan - CPTD | |
| Total Long Term Assets | 2,000,000 | Total Long Term Debt | 190,000 |
| Total Assets | 4,135,000 | Total Debt | 445,000 |
| | | Equity (Net Worth) | |
| | | Contributions ( + ) | 40,000 |
| | | Withdrawals ( - ) | - 30,000 |
| | | Open Retained Earnings | 300,000 |
| | | Current Earnings | 65,000 |
| | | Close Retained Earnings | 365,000 |
| | | Equity (Net Worth) | 3,690,000 |

Figure A1-1 The Opening Net Worth Statement

The Net Worth statement is a systematic organization of everything owned and owed — at a given point in time

Other names for the Net Worth Statement (assets at market value) are:

- Balance Sheet (assets at book value)
- Statement of Affairs (assets at book value)
- Statement of Assets and Liabilities (assets usually at book value)

The net worth statement contains three main sections: assets, liabilities (or debt), and equity (or net worth). The statement is always in balance (hence the name Balance Sheet). The left side – assets, equals the right side – liabilities (debt) plus equity (net worth).

Assets include cash, equipment, machinery, livestock, buildings and land. Other assets include anything of value that the business owns but may be used by others, such as land or machinery that is leased to a third party. Assets are listed in order of expected realization, and are grouped into current or long-term categories. Assets such as cash, inputs to be used in the current production cycle, feed for sale, and market livestock are examples of current assets. Assets that are used over many production cycles or are of a durable nature are generally listed as capital or long-term assets. Assets can also be classed in a middle category as “intermediate assets.” Intermediate assets generally have a useful life greater than one year or one production cycle, but not more than ten years. Examples of intermediate assets would include breeding livestock, machinery, and quota.

Liabilities are obligations incurred by the business, including obligations arising from a past transaction to be paid in the future. Current liabilities are those that are due within the current fiscal period, operating cycle, or current year. Intermediate liabilities are liabilities with amortization periods longer than one year, but not longer than ten years. Long-term liabilities are liabilities with maturity longer than one year from the date of the balance sheet or beyond the normal operating cycle or fiscal year. An example of a long-term liability is a twenty-year mortgage (in year 18 it is still classified as a long term loan as it is based on the original loan agreement). Liabilities are listed in descending order of expected discharge.

Owner’s equity, or net worth, is the owner’s residual claim in the business and is equal to assets minus liabilities. Owner’s equity is increased by the accumulated net income of the business (retained earnings) and the owner’s contributions, and decreased by business losses and owner withdrawals.

The term “owner’s equity” is most often used on financial statements of sole proprietorships. A similar term “partners’ capital” is used to indicate the ownership interests of partners in a partnership. “Shareholders’ equity” is used to show the ownership interest of an incorporated entity.

## Cost versus Current Market Value

There is often some debate over whether assets should be valued at historical cost or current market value. There are merits to both methods. Historical cost reports the value of assets at an amount of money that was actually paid to obtain the asset minus accumulated depreciation. Current market value reports asset values that reflect the changes in the assets as general price levels have changed overtime.

In practice, historic cost values are most often used, and are the accepted industry practice. This is the method used for tax accounting. A disadvantage of the historic cost method is that the values shown on the balance sheet do not always give a true indication of the value of the resources employed in the business, which may result in inaccurate measures of the efficiency of these assets. However, the current market value method suffers from fact that market values are not always readily available, especially for infrequently traded assets, and that such values may also be subject to market volatility.

For the purposes of this document, and the generally accepted practice in Ag Lending, we will be valuing assets at market value. All of the Ag industry financial ratio benchmarks that we will be using are set up based on market value of assets. So to compare our case study information to these benchmark ratios we must use market values for the assets.

### Interconnectivity of the Financial Statements – Opening Net Worth Statement

To properly understand a set of financial statements one must understand how the statements are interconnected. One statement will have information that is used by another statement in the “set”. The opening net worth statement contains the opening inventory values, accounts receivable, accounts payable, and accrued interest that is used by the accrued income statement. It also provides the depreciable asset values that are used in the calculation for depreciation on the accrued income statement. The opening net worth statement has the opening cash balance used by the cash flow statement, and the current portion of the term debt used by the cash flow statement. Under the equity section of the net worth statement is the closing retained earnings that are used by the closing net worth statement as the opening retained earnings.

## Interconnectivity of the Financial Statements – Closing Net Worth Statement

The closing net worth statement contains the closing inventory values, accounts receivable, accounts payable, and accrued interest that is used by the accrued income statement.

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