Agribusiness Procedures

Accounting Statements and Analysis
Financial Statements are Scorecards!

Balance sheet

- A measure of the *value of the business* at one moment in time
- Should be prepared periodically
  - Usually at end of fiscal monthly, quarterly, yearly

**Assets = Liabilities + Capital**
Assets

- Current assets
- Fixed assets
- Intangible assets

*Assets* are things of value that are OWNED. They are primarily tangible things like buildings, trucks, land, and cash, but more rarely they can also be intangible things such as “goodwill”, which is what we believe the value of a business is above what was paid for it.
Current assets

- Can Easily and quickly be converted to liquid assets (cash)
- Include
  - Cash
  - Accounts receivable
  - Inventory
  - Raw materials
- Are expected to be used up over a short period of time
Fixed Assets

- **Not** used up over short period of time
- Not easily converted to cash
- Often *depreciated* over long periods of time
- Include
  - Land
  - Buildings
  - Machinery
  - Equipment
Intangible Assets

- Have value to the business, but do not exist as tangible (able to be held, touched) property
- Include
  - Goodwill
  - Patents
  - Copyrights
Accounting Analysis

Balance Sheet: Assets = Liabilities + Capital

Liabilities

- Debt of the business
- Divided into
  - Current liabilities
  - Long term liabilities

Liabilities are things that are OWED. These are generally debts that have been incurred in the process of acquiring assets
Long-term liabilities

- Debts that are due in more than a year’s time from the date of the balance sheet
- Include
  - Notes (loans)
  - Bonds (loans taken out by large companies, cities, federal government)
  - Mortgages
Current Liabilities

Debts that are due in less than a year’s time from the date of the balance sheet
- 30-day and other near-term payables
- Loans that will come due within the year
Accounting Analysis

Balance Sheet: Assets = Liabilities + Capital

Capital

- Equal to assets minus liabilities
- Result is the net worth of the business, a measure of the value of the business to the owner
- Also can be called “Owners Equity.”
Balance sheet

- An *estimate* of the value of the business and an estimate for **only one moment in time**
- Why an estimate?
  - Except for cash all other numbers are estimates
  - All accounts won’t be collected
    - So an estimated amount is subtracted for bad debts
  - Inventory prices change
  - Fixed assets are estimates
  - Buildings, machinery, equipment are shown at cost; **depreciation** reflects how much less they are worth with use and time.
Liabilities are not estimates – they reflect what you owe.

Subtracting liabilities from estimated assets yields capital (estimated) on balance sheet.

But the only way to determine the real value of a business is to sell it!
Balance Sheet

Why create a balance sheet?

- Measure changes in business (hopefully growth)
- People who deal in money read balance sheets and use ratio formulas to assess the business.

Remember: Financial Statements are Score Cards
One big problem with a balance sheet is that it factors in assets.

There could be some major differences between "market value" and "book value" when calculating the true value of any assets.
Who you are going to show your balance sheet to **may** determine how you will calculate the value of your assets.
Example: if you are the only person that will be looking at your balance sheet, because you just want to know, then calculate the value of your assets on the lower end of the scale to give yourself a more realistic picture of your company's health. But if you are looking for investment of some sort, be a bit more optimistic.
**Glossary**

- **Allowance For Bad Debts** - Amount of estimated debt to the business that is not expected to be repaid and is subtracted from accounts receivable on the balance sheet. Also known as an allowance for doubtful accounts.
- **Assets** - Anything that a business owns that has monetary value.
- **Accounts Payable** - Debts of the business, often to suppliers, and generally payable within 30 days.
- **Accounts Receivable** - An amount owed to the business, usually by one of its customers, as result of the extension of credit.
- **Accrued Payroll Taxes** - Taxes payable for employee services received, but for which payment has not yet been made.
- **Balance Sheet** - A financial statement showing the assets, liabilities, and net worth of a business as of a specific date.
- **Current Assets** - Cash and other assets readily converted into cash. Includes accounts receivable, inventory, and prepaid expenses.
- **Current Liabilities** - The debts of a company which are due and payable within the next 12 months.
- **Current Ratio** - Current assets divided by current liabilities.
- **Debt/Worth Ratio** - Total Liabilities divided by Net Worth.
- **Depreciation** - An accounting convention to take into account the physical deterioration of an asset. It is a systematic method to allocate the historical cost of the asset over its useful life.
- **Fixed Assets** - Also called long-term assets with a relatively long life that are used in the production of goods and services, rather than being for resale.
- **Gaap** - Abbreviation of Generally Accepted Accounting Principles. Conventions, rules, and procedures that define accepted accounting practice.
- **Inventory** - Goods held for sale, raw material and partially finished products which will be sold when they are finished.
- **Liabilities** - Debts of the business.
- **Liquidity** - The ability to produce cash from assets in a short period of time.
- **Long-Term Liabilities** - Debts of a company due after a period of 12 months or longer.
- **Net Worth** - The business owner's equity in a company as represented by the difference between assets and liabilities.
- **Owners' Equity** - See Net Worth.
- **Quick Ratio** - Current Assets minus Inventory, divided by Current Liabilities. Also known as the acid test.
# BALANCE SHEET
## A TO B COMPANY
### BALANCE SHEET
For Period Ending December 31, 1998

### ASSETS
- **Cash**
  - Merchant Checking Account: 1,256.00
  - Merchant Savings Account: 8,600.00
  - Petty Cash: 100.00
  - **Total Cash**: 9,956.00

- **Other Assets**
  - Vehicles: 11,385.00
  - Buildings: 50,483.25
  - Equipment: 43,249.04
  - Furnishings: 13,317.67
  - **Stocks & Bonds**: 16,588.00
  - **Total Other Assets**: 135,022.96

- **TOTAL ASSETS**: 144,978.96

### LIABILITIES & EQUITY
**Liabilities**
- Bank Line of Credit: 35,000.00
- Mortgages Due: 45,554.00
- **Total Liabilities**: 80,554.00

**Equity**
- Owner's Equity: 64,424.96
- **Total Equity**: 64,424.96

- **TOTAL LIABILITIES & EQUITY**: 144,978.96