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# 5 YEAR NET WORTH STATEMENT AND ANALYSIS

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A net worth statement is a summary of a person's or business' financial position at a particular point in time. A series of net worth statements for comparable dates over a period of years provides a basis for determining the financial progress of a person or business over time.

A net worth statement consists of three major parts: (1) a list of assets — what the person or business owns; (2) a list of liabilities — what the person or business owes others; and (3) the net worth — the difference between assets and liabilities.

The assets and liabilities are broken down into categories that show how soon assets will be converted into cash and how soon liabilities will have to be paid.

### Assets

Current assets consist of cash or other assets that normally will be converted to cash during the course of the business year. Certain other assets that can be quickly converted to cash, such as marketable securities and cash value of livestock, are usually classified as current assets.

Intermediate assets consist of those assets used primarily to support production rather than those that are expected to be sold or converted into cash through the normal flow of sales. These assets are distinguished from fixed assets because they have a more limited useful life.

Fixed assets are permanent in nature and consist primarily of land and its improvements and other real estate. Nonfarm property and household furnishings are also classified as fixed assets.

### Liabilities

Current liabilities are those due and payable on demand or within the operating year. Note that the portion of intermediate and fixed liabilities due within the next 12 months is included as current liabilities.

Intermediate liabilities include non-real estate notes and contracts for the purpose of meeting other than seasonal needs. Terms are normally for periods of more than 12 months and less than 10 years.

Fixed liabilities consist of mortgages and contracts on farm and nonfarm property.

Note the adjustment in both intermediate and fixed liabilities made for the portion of loans due during the next 12 months which are included as current liabilities.

Contingent liabilities are those liabilities that, because of their indirect nature, indefinite amount, or uncertain existence, are not reflected as direct liabilities. In the event of certain developments, these could become actual liabilities. The main concern is with the income tax liability resulting from the appreciation in value of property and in being a cosigner or guaranteeing other liabilities.

### Net Worth

The final entry is the net worth. It is the sum of the total assets less the sum of the total liabilities.

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| ASSETS | | Date | Date | Date | Date | Date |
|---|---|---|---|---|---|---|
| CURRENT ASSETS | | | | | | |
| 1. Cash on Hand | | | | | | |
| 2. Cash on Deposit (Bank) | | | | | | |
| 3. Notes Receivable | | | | | | |
| 4. Accounts Receivable | | | | | | |
| 5. Livestock Held for Sale | | | | | | |
| 6. Crops Held for Sale and Feed | | | | | | |
| 7. Cash Investment in Growing Crops | | | | | | |
| 8. Securities (Marketable) | | | | | | |
| 9. Cash Surrender Value of Life Insurance | | | | | | |
| 10. Other (specify) | | | | | | |
| 11. TOTAL CURRENT ASSETS | * | | | | | |
| 12. INTERMEDIATE ASSETS | | | | | | |
| 13. Autos and Trucks (Net) | | | | | | |
| 14. Machinery and Equipment (Net) | | | | | | |
| 15. Breeding and Dairy Livestock | | | | | | |
| 16. Securities (Not Readily Marketable) | | | | | | |
| 17. Other (specify) | | | | | | |
| 18. TOTAL INTERMEDIATE ASSETS | * | | | | | |
| 19. FIXED ASSETS | | | | | | |
| 20. Farmland | | | | | | |
| 21. Farm Improvements (Net) | | | | | | |
| 22. Nonfarm Real Estate | | | | | | |
| 23. Household Furnishings | | | | | | |
| 24. Other (specify) | | | | | | |
| 25. TOTAL FIXED ASSETS | * | | | | | |
| 26. TOTAL ASSETS | ** | | | | | |

| LIABILITIES | Date | Date | Date | Date | Date |
|---|---|---|---|---|---|
| 27. CURRENT LIABILITIES | | | | | |
| 28. Notes Payable to our Bank | | | | | |
| 29. Notes Payable to Relatives | | | | | |
| 30. Notes Payable to Others | | | | | |
| 31. Accounts Payable | | | | | |
| 32. Portion of Intermediate-Term Debt Due Within 12 Months | | | | | |
| 33. Portion of Long-Term Debt Due Within 12 Months | | | | | |
| 34. Rent, Taxes and Interest Due and Unpaid | | | | | |
| 35. Loans Against Cash Surrender Value of Life Insurance | | | | | |
| 36. Other Debt Due Within 12 Months | | | | | |
| 37. TOTAL CURRENT LIABILITIES * | | | | | |
| 38. INTERMEDIATE LIABILITIES<br>*Maturities of over 1 but under 10 years for other than seasonal needs — less portion applied to current liabilities.* | | | | | |
| 39. Notes Payable to our Bank | | | | | |
| 40. Notes Payable to Others | | | | | |
| 41. TOTAL INTERMEDIATE LIABILITIES * | | | | | |
| 42. LONG-TERM LIABILITIES | | | | | |
| 43. Mortgages on Farm Real Estate (Less portion applied to Current Liabilities) | | | | | |
| 44. Mortgages on Other Real Estate (Less portion applied to Current Liabilities | | | | | |
| 45. Other (specify) | | | | | |
| 46. TOTAL LONG-TERM LIABILITIES * | | | | | |
| 47. TOTAL LIABILITIES ** | | | | | |
| 48. **NET WORTH (Line 26 minus Line 47)** | | | | | |
| 49. CONTINGENT LIABILITIES | | | | | |
| 50. Accrued Income Tax or Unrealized Asset Appreciation | | | | | |
| 51. Other | | | | | |

As business size increases and credit usage goes up, a means of evaluating the condition of the business operations becomes more critical. Financial ratios provide one method of interpreting data in net worth reports. The following guidelines furnish a framework for using financial ratios:

(1) A financial ratio is a comparison of two measurements of a business. The objective is to evaluate the condition of the farm business as a unit.

(2) Data for most financial ratios come from the net worth statement (balance sheet) and the income statement.

(3) Financial ratios are useful indicators of financial progress and risk bearing ability.

(4) The interpretation of one ratio may be altered by other ratios of the same business. A specific ratio concentrates attention upon specific details of a business.

(5) Financial ratios of a specific business are best interpreted as a group rather than making judgements on individual ratios.

(6) Individual ratios may be used to detect strengths and weaknesses within a farm business.

Measures of financial condition most often used in net worth statement analysis, and reasons for them, are shown below.

## COMPUTE THE RATIOS FOR YOUR OPERATION

1) Current Ratio =

$$\frac{\text{Total Current Assets (line 11)}}{\text{Total Current Liabilities (line 37)}}$$

*This is a test of liquidity within one year's time. It indicates the likelihood that current liabilities could be liquidated by the use of cash or sale of current assets.*

2) Current Debt to Net Worth Ratio =

$$\frac{\text{Current Liabilities (line 37)}}{\text{Net Worth (line 48)}}$$

*This ratio reflects ability to pay either by use of current assets or by borrowing.*

3) Debt to Net Worth Ratio =

$$\frac{\text{Total Liabilities (line 47)}}{\text{Net Worth (line 48)}}$$

*This ratio compares the creditor's contribution of capital (total liabilities) to that of the farmer contribution (net worth).*

| DATE | | | | |
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