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RIGHTRISK NEWS

What Is Your Business Worth?

Most people are interested to know the net value of their business. What is all their hard work worth? The answer to this question is very important when trying to obtain a loan to buy a new vehicle, breeding livestock, etc.

A balance sheet is the financial statement which shows the value of business assets and the amount of money owed others on a specific date. It is also known as a statement of net worth. One way to think about net worth is to consider how much the business would have after all assets were sold and all liabilities repaid.

A balance sheet lists of the value of one's property (assets), the amount of money owed others (liabilities), and the net of those two values (net worth or equity). Both assets and liabilities are further broken down into current and non-current categories.

There are two ways to value assets and, thus, two types of balance sheets. Book value is an estimate of the value of an asset based on the cost of acquiring the asset (purchase price) minus any depreciation taken to date. Market value is an estimate of asset value based on the price at which the asset could be sold today.



DATES TO REMEMBER

Spring crop acreage reporting deadline
- July 15

Margin Protection Program Dairy (MPP-D)
- 2017 crop year
July 15th-Sept. 30th

Forage Insurance
- September 30th

RI-PRF Coverage
November 15th, 2016 for 2017 crop year coverage

Acreage Reporting:
- November 15th

For more information see:
<http://www.rma.usda.gov>
<http://www.fsa.usda.gov>

How Much Risk is Right for You?

- Let's take a look at Barney Rubble's market value balance sheet for his registered sheep flock as of January 1, 2016:
- First, Barney determines that his current assets (those things with a life expectancy of less than one year) consist of \$8,376 in the checking account; 100 bales of hay valued at \$1,000; and \$200 worth of grain,
 - Second, Barney identifies the non-current assets (those items with a life expectancy of more than one year): 125 ewes valued at \$300 each, 3 rams worth \$600 each, and 2 prized rams worth \$3,500 each; a \$19,500 tractor and \$5,000 of miscellaneous equipment; a lambing shed worth \$2,000 and a combination shop, barn, and feed storage building valued at \$22,900; and 52 acres of land valued at \$8,000 per acre,
 - Third, he lists his current liabilities (financial obligations due over the next year) as an operating loan of \$15,250 and property taxes of \$5,200 due in February. He also lists the \$18,750 of principal for the next payment on his loan for the land and big barn, and
 - Fourth, he lists his only non-current liability (debts that will be paid in future years) as \$356,250 owed to the bank for the land and big barn.

Barney Rubble		January 1, 2016	
<u>Current Assets</u>		<u>Current Liabilities</u>	
• Checking Account	\$8,376	• Operating loan	\$15,250
• Feed (100 bales of hay)	1,000	• Property taxes	5,200
• Feed (grain)	200	• Current principal – loan	18,750
Total Current Assets	\$9,576	Total Current Liabilities	\$39,200
<u>Non-Current Assets</u>		<u>Non-Current Liabilities</u>	
• 125 ewes @ \$300	\$37,500	• Loan – land/big shed	\$356,250
• 3 rams @ \$600	1,800		
• 2 rams @ \$3,500	7,000		
• 45 hp tractor	19,500		
• Misc. machinery/equipment	5,000		
• Lambing shed	2,000		
• Big barn	22,900		
• Land (52 acres @ \$8,000)	416,000		
Total Non-Current Assets	\$511,700	Total Non-Current Liabilities	\$356,250
TOTAL ASSETS	\$521,276	TOTAL LIABILITIES	\$395,450
		NET WORTH	\$125,826

Mr. Rubble's market value balance sheet shows the business has a net, pre-tax value of more than \$125,000. This is really good for someone who has been in business for only a few years. But, can the balance sheet tell us more?

HIGHLIGHTED COURSE

Producing quality, up-to-date financial statements is a key to success in any agricultural business. These statements allow analyses of alternatives and sound management decisions. Producing accurate, well-organized financial statements benefit operations of all sizes and scales.

The academic professionals at RightRisk have developed an online course entitled *Getting on Track: Better Management through Basic Financial Statements*. The interactive course relies on an example couple looking at several alternative enterprises for their operation and how they learn to use financial statements to make decisions.

To access the course see: <http://RightRisk.org> > Courses > *Getting on Track: Better Management Through Basic Financial Statements*.



WHAT IS YOUR BUSINESS WORTH CONTINUED FROM PG. 1



Just as a person's blood pressure, body temperature, heart rate, and blood chemistry are indicators of physical health, numbers on a set of financial statements are indicators of financial health. While there are hundreds of different financial ratios – each indicating a different aspect of financial health – smart business managers focus on a few that are key to the success of their businesses.

One measure of liquidity, or the ability to meet short term debts using current assets, is the current ratio. It is computed by dividing current assets by current liabilities. Barney Rubble's current ratio of 4.1 ($\$39,200 / \$9,576$) suggests he would have a problem if he needed to pay off all his current liabilities. However, Barney knows that his loan payments are not due until after he sells his lambs.

A measure of his ability to meet all his financial obligations (called solvency) is the "debt to asset ratio." It is computed by dividing total farm liabilities by total farm assets. Mr. Rubble's debt to asset ratio is 0.76 ($\$395,450 / \$521,276$). While any debt to asset ratio above 0.7 is considered high, he is a young operator. Hopefully, over time and with good management his financial health will improve.

A balance sheet can be a useful tool for discovering the financial health of a business and for measuring progress over time. To help people better understand how to complete a balance sheet and other financial statements, RightRisk has three Getting on Track courses available at www.rightrisk.org.



RightRisk helps decision-makers discover innovative and effective risk management solutions.

RIGHTRISK™

- **Education**
- **Coaching**
- **Research**

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How much risk is right for you and your operation?

Colorado State University Extension

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