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.

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 can tell us more?

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 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.
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.