The Closing Net Worth Statement

A complete set of financial statements includes both an opening and a closing net worth statement. These are called the “Book End” statements as they enclose between them the income and expense statement, and the cash flow statement for the fiscal period being reported.

The closing net worth statement contains all of the same information as the opening net worth statement. The only difference is that it is reporting the asset, liability, and equity balances as of a different point in time - the closing date for the fiscal period being reported.

Figure A1-4 contains the closing net worth statement for the example we have been following.

Interconnectivity of Financial Statements – Closing Net Worth Statement

As was mentioned above, all of the financial statements in a “set of financial statements” are interconnected. The closing net worth statement is the final financial statement of the set. In a past fiscal year reporting period we would have the information on hand to complete all of the sections of the closing net worth statement and we would use the accrual adjustment information on the accrued income and expense statement to calculate accrued net income. This income and expense statement would also provide us with the depreciation amounts we require to complete the after depreciation closing net worth statement.

We would use the difference between the term debt in the opening statement and the closing statement as the financing activities undertaken during the year to complete that portion of the cash flow statement. The difference between the closing capital asset values and the opening capital asset values would be the investment activities that were undertaken during the year, and that section of the cash flow statement would be completed. We would have documented amounts for the cash contributions and withdrawals for the period to complete the personal activities section of the cash flow statement. Cash farm tax paid would be known, as would the accounts payable and receivable adjustment amounts for the cash flow statement.

The opening cash balance for the farm would be known, and once the adjustments mentioned in the paragraph above were made on the cash flow statement the cash balance at the bottom should equal the amount in the operating account as of the closing net worth statement date. For historical periods the facts needed to complete the financial statements should be known, but it is different for a projected set of financial statements.

In a projected set of financial statements only the net worth statement information at the start of the projection period is known (Figure A1-1). The rest of the statements will be an estimation of amounts expected based on what has happened in the past, and is expected to happen in the upcoming year. In the example we have been following we entered expected income and expense information into a projected production plan, which was summarized in a projected income statement for the upcoming year. We also completed a cash flow statement with the expected cash changes from operating, investing, financing, and personal activities for the farm for the upcoming year. Once this information has been entered the closing net worth statement can be produced by a template, program like ABA or through manual calculations.

Closing Balance Sheet or Net Worth Statement			
December 31, 2012			
Assets		Liabilities	
Current Assets		Current Liabilities	
Cash	0	Operating Loan	155,000
Accounts Receivable	35,000	Accounts Payable	15,000
Inventory For Sale	300,000	Accrued Interest	17,500
(Grain, Livestock, Hay)		Current Portion of the	
Inventory For Production	60,000	Term Debt – CPTD	60,000
(Seed, Feed, Supplies)			
Total Current Assets	395,000	Total Current Debt	247,500
Intermediate Assets		Intermediate Liabilities	
Breeding Livestock	160,000	Loans > 1 yr < 10 yrs	
		New Combine Loan	90,000
Machinery	915,000	4 Year Term Loan	60,000
Quota	800,000	80,000	
		Loan – CPTD	
Total Intermediate Assets	1,875,000	Total Intermediate Debt	150,000
Long Term Assets		Long Term Liabilities	
Buildings	475,000	Loans > 10 years	
Land	1,500,000	19 Year Term Loan	180,000
		190,000	
		Loan – CPTD	
Total Long Term Assets	1,975,000	Total Long Term Debt	180,000
Total Assets	4,245,000	Total Debt	577,500
		Equity (Net Worth)	
		Contributions (+)	40,000
		Withdrawals (-)	- 30,000
		Open Retained Earnings	365,000
		Current Earnings	-7,500
		Close Retained Earnings	357,500
		Equity (Net Worth)	3,667,500

Figure A1-4 The Closing Net Worth Statement

The closing cash balance for the period is reported at the bottom of the cash flow statement. Closing inventory values are taken from the production planners for the upcoming year. Closing accounts payable and receivable were estimated and entered into the accrued income and expense statement. Closing amounts for the accrued interest were estimated, and or calculated by a projection template (like ABA). The current portion of the term debt was estimated, and or calculated by a projection template.

Changes to capital assets were reported in the investing activities section of the cash flow statement. New loans, and loan repayments made were reported in the financing activities section of the cash flow statement. With this information the closing capital account, and loan account, balances can be calculated and reported on the closing net worth statement. You will note that the farm in the example lost equity by going from $ 3,690,000 to $ 3,667,500 over the course of the year.

With assets at market value in a net worth statement equity can increase without a profit being generated by the farm. Capital assets like land can increase in market value by more than an operating loss, and the equity of the net worth statement will increase because assets minus liabilities equals equity. It is still very important to track your farms' profitability, as you will not want to borrow money if your farm is not that profitable but has good equity. For this reason a section in the ABA financial analysis template has been made under equity, for current and retained earnings, to track historical profitability even though the net worth statements are based on market values.

With a solid understanding of the information that financial statements report, and how financial statement information is interconnected, one can advance to the next step in assessing financial risk, which is analyzing the financial statements.

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