C.S. Azad University of Agriculture & Technology, Kanpur

Lectured by:

Dr. Harendra Pratap Singh Choudhri

(Teaching Associate)

Course Instructor:

Dr. Birendra Kumar

(Assistant Professor)

Department of Agricultural Economics and Statistics

Balance Sheet

Content

- Balance Sheet
- Assets
- Liabilities
- Test Ratio

Balance Sheet

- Balance is also known as Networth statement.
- Any farmer, whether marginal, small, medium or large, measure financial performance of the farm business during an agricultural year or over a period of time.
- There is a possibility in the variation of degree of enthusiasm that is shown by the different categories of farmers.
- It is a summary of assets, liabilities and owner’s equity (net worth) at a given point of time.
- This statement shows the value of assets that would remain, if the farm business is liquidated and all the outside claims against the business are paid.

Contd…

- The balance sheet can be easily prepared by farmer in the presence of farm record.
- It can be prepared at any point of time to know the financial position of the farm record.
- It can be prepared to study the performance of a business over years by preparing the same number of balance sheet.

➢ To prepare a balance sheet the primary requisites are total assets and total liabilities of the farm.

What is assets?

- **Assets:-** Assets are those, which are owned by the farmer.

- Anything of value in the possession of the farm business or a claim for anything of value in the possession of others.

- Assets are the three type: current, intermediate/working and long-term/fixed. So also the liabilities.

1. Current Assets

- They are very liquid or short-term assets. They can be converted into cash, within a short term, usually on year.
- Cash on hand or in the bank and other assets in the possession of the farm, which may be liquidated in the normal operation of the business like products held for sales and supplies are called current assets.
- Example: cash on hand, agricultural produce ready for disposal, i.e. stocks of paddy, wheat, black gram, jowar, p.pea etc.
- The liquidation of these items will have the least effect on the business to continue its operation.

2. Intermediate/working Assets

- Intermediate assets are less liquid than the current assets.
- They have the life of one to ten years.
- The liquidation of these assets would have a significant influence on business activity.
- Example: Machinery, livestock, tractors trucks etc.

3. Fixed Assets or Long Term Assets

- An asset that is permanent or will be used continuously for several years is called long-term asset.
- It takes longer time to convert into cash due to verification of records, legal transaction.
- Example: Land, farm, building etc.
- These are not likely to be liquidated. If a major portion of these assets were liquidated, the business would also be terminated in most cases.

Liability

A liability is defined as, “a claim by others against the farm business, like mortgages and accounts payable”.

Liabilities can be classified into three type:

1) Current
2) 2) Intermediate
3) 3) Long-term

Current Liability

- Liabilities, which call for immediate payment, generally within one year and which cannot be deferred, are called the current liabilities.
- Debts that must be paid in the short term or in very near future.
- Example: crop loan, account payable, hand loans etc.

Intermediate liabilities

- They are also known as medium term liabilities, which can be deferred for the present.
- They are not of immediate concern but have to be paid between one and five year period.
- Example: Livestock loans, machinery loan etc.

Long Term liabilities

- Any deferred liability, which has to be met after five years and generally upto 20 years, is called the long-term liability.
- They consist of mortgages and land contracts.
- Example: Tractor loan, orchard loan, land development loan etc.

Test Ratio

The balance sheet is analysed with the help of ratio measure so as to know the exact financial position and stability of the farm business.

1. Net capital ratio:

- This is a measure of degree of financial safety over a period of time by comparing the present position of the business with that on some previous date.
- Higher the ratio, safer will be the position of the farmer.

$$\textbf{Net capital ratio} = \frac{\textbf{Total assets}}{\textbf{Total liabilities}}$$

Current Ratio

- It measures the ability of the farm to meet its current liabilities.
- Higher the current ratio, the greater the short term solvency.

$$\text{Current ratio} = \frac{Total\ current\ asset}{Total\ current\ liabilities}$$

Intermediate Ratio

- ➢This indicates the liquidity position of the farm business over an intermediate period of time, ranging from 2 to 5 years .
- ➢This ratio should also be more than one to indicate sound running of the farm business.

- Intermediate ratio $= \dfrac{\text{Total current asset} + \text{Total intermediate asset}}{\text{Total current liabilities} + \text{Total intermediate liabilities}}$

Acid test ratio

- Acid test ratio is also known as quick ratio, which is a stringent measure of liquidity.
- It is based on those current assets, which are highly liquid, i.e., inventories are excluded from current assets, as they are the least liquid component of current assets.

$$\text{Acid test ratio} = \frac{\mathit{Cash\ reciept + account\ recievable + marketable\ securiteis\ available\ in\ more\ than\ one\ year}}{\mathit{Total\ currenyt\ liabilities}}$$

Current liability Ratio

- This ratio indicates the farmers immediate financial obligation against the net worth
- A ratio of less than one indicate a healthy performance of the farm business and over the years the ratio should become smaller and smaller to reflect a consistency good performance.

Current liability ratio= $$\frac{\boldsymbol{Current\ liabilities}}{\boldsymbol{Owner's\ equity}}$$

Debt Equity Ratio

- This present the capacity of the farmers to meet the long-term commitments.
- A consistently falling ratio indicate a very heartening performance of farming and the ability of the farmer to reduce dependence on borrowing.

$$\textbf{Debt-equity ratio: } = \frac{Total\ debts}{Owner's\ equity}$$

Equity value ratio

- This ratio highlights the productivity gained by the farmer in relation to the assets he has.
- This ratio has a direct bearing on the type of assets one has.
- Managerial ability of the farmer is an essential element in raising the productivity of the assets.

$$\textbf{Equity value ratio} = \frac{Owner's\ equity}{Value\ of\ assets}$$

THANK YOU