**Income Statement and Balance Sheet Exercise**

Balance Sheet for Jan. 1, 2019:

Kate’s Rambouillets is a small sheep operation. She raises handspinning fleeces and lambs, and occasionally guard dog puppies. The Jan. 1 2019 balance sheet shows that she has $2200 in cash or checking, $750 in prepaid expenses and supplies, $200 in accounts receivable (a bill owing on puppies purchased in late December) and some inventory in the form of unsold handspinning fleeces, worth $480, and $800 of market lambs that she plans to sell later in January. Her total **current assets** are estimated to be worth $4,430.

As of Jan. 1, 2019, Kate’s **intermediate asset**s include $6500 worth of breeding livestock, a trained working dog (Border Collie) worth $1000, $4500 worth of machinery, and $8500 in titled vehicles for a total of $19,500 in intermediate assets. Her **long term assets** include her farmland, which includes her home, worth $125,000 plus barns and fences worth $25,000, for a total of $150,000. Her total farm assets are $4,430 + $19,500 + $150,000 = $174,930. In addition, her personal assets (her personal vehicle and other nonfarm assets) are worth $35,000, so her **total assets** are valued at **$209,930.**

Current liabilities include interest due on two loans: $306 for a machinery loan and $3,500 on her mortgage, so her total current liabilities as of 01/01/2019 were $3,806. Intermediate liabilities include the noncurrent portion of her machinery loan at $4,875. Long term liabilities include the noncurrent portion of her mortgage, valued at $70,000. Total farm liabilities are $78,681. In addition, she has $5800 in personal liabilities. Her total liabilities sum to $84,481.

Kate’s net worth, calculated as total assets minus total liabilities, is $125,449. The sum of total liabilities and net worth is $209,930. Note that total assets are also equal to $209,930. This is the “balance” in balance sheets! Kate’s Debt to Asset ratio is calculated as (total liabilities)/(total assets) = 40%.

Changes for Jan. 1, 2020:

The Jan. 1, 2020 balance sheet shows some changes over the past year. In terms of current assets, she has less cash and checking, but more prepaid feed and supplies. Why would that be? She has no accounts receivable, but what has happened to her crop inventory?

In terms of intermediate assets, the values have declined over the previous year. Why would that be? Long term assets show no decline in the value of the land, but a 5% decline in the value of the barn and fences. How would you explain this?

In terms of current liabilities, the only change is a decline in the payments due as loans are being paid off. Total liabilities have declined by the amounts paid on these loans. Total liabilities have declined more than total assets, although total assets have declined somewhat. The value of these assets have declined due to depreciation, or that fact that assets wear out or age (livestock and the Border Collie).

Discussion Questions:

1. What changes do you see in the current assets? Long-term assets? Current liabilities? Long-term liabilities?
2. How does the status of the farm differ from Jan 1 2019 to Jan 1 2020?
3. Is the farm in a stronger position or a weaker position on Jan 1 2020? Why?
4. Do you think this is a common situation on a small farm? How would you explain the economic situation to Kate? Is her equity eroding, given her current operation?