

Dairy business management in and after floods

Creating a balance sheet

Your balance sheet represents the financial foundations on which you are building your business. It is a simply a list of assets owned and debts owed at a given time, with dollar values attached. A balance sheet is:

- the basic building block for financial analysis;
- a picture in time, such as at 28 February 2011;
- an indicator of your business’s ability to handle risk;
- the net result of past decisions; and
- an important way to track and monitor financial progress.

Analysing the debt position of your business starts with preparing a balance sheet. The assets and liabilities prepared by your accountant for tax purposes may not be adequate for working out your debt position. Creating a balance sheet can be as simple as listing the assets in your business in one column and the liabilities in another.

Example of a balance sheet

Assets	At 28 February 2011	Liabilities	At 28 February 2011
Bank account	\$15,000	Bank loan	\$734,082
Livestock	\$828,000	Chattel mortgages	\$115,000
Milk company shares	\$68,000	Vendor finance	\$165,000
Farm management bonds	\$20,000		
Land, water and buildings	\$2,056,842		
Plant and equipment	\$296,344		
Total farm assets	\$3,284,186	Total farm liabilities	\$1,014,082

Another option for creating balance sheet is to use the Taking Stocking application, which is available through your milk processor and Dairy Australia.

Creating a balance sheet

Start with this Checklist ...

Calculating asset values

- Have you any cash on hand or in the bank?
- Have you any livestock?
 - How many animals do you have in the various classes of stock, milkers, dry cows, rising two-year-olds, rising one-year-olds, bulls and other livestock.
 - What might the various classes of stock be valued at?
- Have you any inventory?
 - How much feed is on hand and what is the current market value?
 - How much irrigation water is on hand and what is the current market value?
 - Have you any other inventory and what might it be reasonably valued at?
- Have you any land, water and improvements?
 - How much land is owned and what might it be reasonably valued at?
 - How much water is owned and what might it be reasonably valued at?
 - What might the improvements to the land be reasonably valued at?
- Have you any plant and machinery?
 - List the plant and machinery that is owned?
 - What might the plant and equipment be valued at if sold at a clearing sale?
- Have you any other assets?
 - Investments in property
 - Investments in shares
 - Farm management deposits
 - Debtors
 - Other assets

Calculating liabilities

- Have you any money owing on the farm?
 - Your bank manager will be able to provide this information if statements are not available.
- Have you any money owing on the livestock?
 - Your lender will be able to provide this information if statements are not available.
- Have you any money owing on the plant and machinery?
 - Remember to include all loans, hire purchases, chattel mortgages, leases, etc.
 - Your lenders will be able to provide this information if statements are not available.
- Have you any other debt?
 - Overdraft
 - Creditors
 - Milk company
 - Credit cards
 - Other debt

Your rural financial counselor, bank manager or farm management consultant can help with constructing a balance sheet.