Agricultural Economics Curriculum

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Development Partners Include:

Lesson 3. Activity 1 – Balancing Act

Introduction

A good snapshot of the health of a business is a list of all assets and liabilities side-by-side for a clear comparison. The reason balance sheets are used is to see how the assets and liabilities "balance" each other out. If one side of the sheet is heavier, then the business owner can use this information to make important decisions about projections for business growth and financial risk.

Assets and liabilities come in two forms – current and non-current. Although sometimes hard to sort, the simple rule of "one year" is the key to dividing current and non-current assets and liabilities into the correct categories. Identifying current assets and liabilities are important to determine liquidity, an analysis tool you will study in an upcoming activity.

The results of a balance sheet provide one more way to examine a business' financial status for planning purposes. It also provides another measure for a lender to assess risk if deciding to loan money to a business.

Materials

Students will need to have the following materials to complete this exercise:

- Pencil

Student Instructions

In this activity, you will need to arrange the types of assets and liabilities according to the proper categories typically found on a balance sheet. Remember what you learned regarding current and non-current designations.

Part 1 – Sorting the Assets

Use the following list of assets and liabilities. Write the item in the proper category for the balance sheet below. For every item, you will enter one dollar in the value column of the balance sheet.

Fertilizer	$1.00	Bill for Lumber	$1.00
Neighbor Owes Money	$1.00	Breeding Mare	$1.00
Credit Card Bill	$1.00	Equipment Loan Balance	$1.00
Interest Payment	$1.00	Fences	$1.00
Land	$1.00	Hay for Sale	$1.00
Pickup	$1.00	Property Mortgage	$1.00
Plow	$1.00	Property Taxes	$1.00
Market Steer	$1.00	Tractor	$1.00
Cash in Bank	$1.00	Trailer	$1.00

Balance Sheet			
(A) Current Assets		**(D) Current Liabilities**	
	$		$
	$		$
	$		$
	$		$
	$		$
	$		$
(B) Non-current Assets		**(E) Non-current Liabilities**	
	$		$
	$		$
	$		$
	$		$
	$		$
	$		$
	$		$

Part 2 – Calculating the Numbers

Now that you have filled in the top portion of a balance sheet by identifying the assets and liabilities, the next step is to calculate the totals. Four formulas are used to determine the different totals:

Total Assets	A + B = C
Total Liabilities	D + E = F
Owner's Equity (Net Worth)	C – F = G
Total Liabilities + Owner's Equity	F + G = H

(C) Total Assets	$	**(F) Total Liabilities**	$
		(G) Owner's Equity	$
		(H) Total Liabilities + Owner's Equity	$

Student Reflection

1. Explain the difference between a current and a non-current asset.

2. How can the same loan be both a current and a non-current liability?

3. Explain what owner's equity is and why this calculation is important.

4. If a balance sheet has more total liabilities than total assets, what does this indicate to the business owner?