

Statement of Owner Equity

Agricultural Business Management

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A complete set of financial statements for agriculture include: a Balance Sheet; an Income Statement; a Statement of Owner Equity and a Statement of Cash Flows. The FINPACK software, developed by the University of Minnesota, generates each of these statements. Other software and paper products generate similar information. Key ratios and measurements covering Liquidity; Solvency; Profitability; Repayment Capacity and Efficiency have become standards in the agricultural industry, and are generated from these financial statements.

The “Statement of Owner Equity” is a financial statement that analyzes why a farmer’s Net Worth (or Owner Equity) changed the way it did in the past year. This change in Net Worth is caused by a number of factors such as earning money, spending money, paying taxes, inheriting or receiving gifts, giving away gifts, having debts forgiven, or having his assets inflate or deflate in value. By simply comparing the Net Worth from one year to another, he can tell whether it went up or down, but he will not know which of the mentioned forces caused the change. That is what this “Statement of Owner Equity” is designed to do.

The following paragraphs describe how the “Statement of Owner Equity” that is generated by the FINPACK software is structured. Other software or paper forms will organize the information in a similar way.

To complete a “Statement of Owner Equity”, one must have a good “Balance Sheet” from the beginning of the year, another for the end of the year, and an accrual adjusted “Income Statement” for the year.

The farmer’s Net Worth at the beginning of the year, taken from the Balance Sheet at the beginning of the year, is the starting figure for this “Statement of Owner Equity”.

The “Statement of Owner Equity” is divided into three groups, each examining an individual portion of his financial life. They are as follows:

- The first group deals with earnings. It lists his Net Farm Income (profits, as measured by his Income Statement) and his Non-farm Income (if any). These are the earned dollars that have come into his life during the year. It then subtracts out the amount spent for Family Living, and the amount that went for Taxes. It then adjusts (+ or -) the Changes in Value of his Non-Farm Assets, and the Changes in the Non-Farm Accounts Payable. These components are then added, to produce the “Total Change in Retained Earnings”. This figure indicates whether more money was earned than what was consumed for personal use, and what was paid in taxes. If the farmer and his family earned more than what was spent, the result is a positive figure that contributes to his Net Worth. If they spent more than what was earned, the figure will be negative, and will contribute to a decline in his Net Worth.
- The second group deals with items that do not happen every year. Gifts and Inheritances that are received during the year will appear here as well as Debts Forgiven (if any). If he gave away Gifts, they also will be listed in this section. These items are totaled to produce “Total Change in Contributed Capital”. If the total of gifts and inheritances received and debts forgiven exceeds the total of gifts given, then the “Total Change in Contributed Capital” will be a positive number, and will contribute to the Net Worth increase. If it is a minus figure, it will contribute to the Net Worth decrease.
- The third group accounts for the Change in Market Value of Capital Assets during the year, and the Change in Deferred Liabilities from the farmers Balance Sheet at the beginning of the year compared to his Balance Sheet at the end of the year. These items are totaled to produce the “Total Change in Market Valuation”. This figure

either contributes to or has a negative effect on his Net Worth depending on the market valuation changes, and the resulting deferred tax liability change.

The “Change in Retained Earnings”, the “Change in Contributed Capital” and the “Change in Market Valuation” are then totaled to produce the “Total Change in Net Worth”. This is the amount that his Net Worth increased or decreased from one year ago.

The “Total Change in Net Worth” is added to the beginning “Net Worth” to come up with the “Ending Net Worth”. This “Ending Net Worth” is the same as that shown on the farmer’s year-end Balance Sheet.

Your Net Worth will change every year. Is it because you earned more money than was consumed and spent for taxes? Have you inherited or received gifts? How much of your Net Worth change was caused by inflation or deflation of your assets? These are answered by your “Statement of Owner Equity”.

It is important for the farmer to have good financial statements and analysis, and to understand them. After all, it is his financial life.

Caution: This publication is offered as educational information. It does not offer legal advice. If you have questions on this information, contact an attorney.