

Statement of Owner's Equity

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SUB-HEADING

This article is one of a series of financial management articles that examine financial statements and financial analysis. In this article, the components of a statement of owner's equity are illustrated and described. This statement is used to reconcile beginning and ending owner's equity. It is also helpful in determining whether increases in owner's equity are due to increases in retained earnings and/or increases in asset values.

Table 1 contains an example of a market value balance sheet for a case farm in west central Indiana in 2019. Beginning owner equity was \$9,110,194. Owner equity increased to \$9,221,582 by the end of the year, an increase of \$111,387 or 1.2 percent. The statement of owner's equity in table 2 reconciles the change in owner equity during 2019, and illustrates the relative importance of retained earnings and increases in land values to the increase in owner equity.

Ending owner equity in table 2 is derived using three sub-totals: beginning owner equity, the change in contributed capital and retained earnings, and the change in valuation equity. The change in contributed capital and retained earnings was \$84,387, and was derived by subtracting family living withdrawals and income and self-employment taxes from net farm income. In years when net farm income is relatively low, this change is often negative. In other words, in these years, net farm income is not large enough to cover family living withdrawals and taxes. The change in valuation equity was \$27,000. This change was the result of increasing land values during 2019. Note that the ending owner equity figure of \$9,221,582 in table 2 is equal to the corresponding balance sheet figure. If ending owner equity is not equal to the balance sheet figure, we would need to make sure that we have accurately recorded net farm income, owner withdrawals, asset valuation, and capital contributions.

Most businesses have a goal of increasing owner equity over time. As indicated above, the change in owner equity can be separated into two categories: changes in retained earnings and changes in asset values. For this case farm, the increase in retained earnings and the increase in land values contributed to the increase in owner equity. Approximately 76 percent of the increase can be attributed to positive retained earnings.

This article illustrated and described a statement of owner's equity for a case farm in west central Indiana. Other articles in the financial management series discuss the balance sheet, the income statement, the sources and uses of fund statements, and benchmarking.



Table 1. Balance Sheet for White County Farms, 2019.

		<u>Beginning</u>	<u>Ending</u>	<u>Average</u>
ASSETS:				
Cash	(1)	2,110,287	2,296,378	2,203,333
Marketable Securities	(2)	0	0	0
Accounts Receivable	(3)	0	0	0
Fertilizer and Supplies	(4)	52,701	54,340	53,520
Investment in Growing Crops	(5)	0	0	0
Crops Held for Sale and Feed	(6)	961,117	897,660	929,388
Market Livestock	(7)	0	0	0
TOTAL CURRENT ASSETS (Add Lines 1 through 7)	(8)	3,124,105	3,248,378	3,186,241
Breeding Livestock	(9)	0	0	0
Machinery and Equipment	(10)	1,527,584	1,544,369	1,535,977
Buildings	(11)	87,292	82,927	85,110
Investments in Cooperatives	(12)	0	0	0
Land	(13)	5,861,250	5,888,250	5,874,750
TOTAL NONCURRENT ASSETS (Add Lines 9 through 13)	(14)	7,476,126	7,515,546	7,495,837
TOTAL ASSETS (Add Lines 8 and 14)	(15)	10,600,231	10,763,924	10,682,078
LIABILITIES AND OWNER EQUITY:				
Accounts Payable	(16)	0	0	0
Taxes Payable	(17)	0	0	0
Accrued Expenses	(18)	0	0	0
Current Portion: Deferred Taxes	(19)	0	0	0
Notes Due Within One Year	(20)	500,000	500,000	500,000
Current Portion of Term Debt	(21)	46,948	52,373	49,661
Accrued Interest	(22)	29,663	31,139	30,401
TOTAL CURRENT LIABILITIES (Add Lines 16 through 22)	(23)	576,611	583,512	580,062
Noncurrent Portion: Deferred Taxes	(24)	0	0	0
Noncurrent Portion: Notes Payable	(25)	433,522	493,748	463,635
Noncurrent Portion: Real Estate Debt	(26)	479,904	465,082	472,493
TOTAL NONCURRENT LIABILITIES (Add Lines 24 through 26)	(27)	913,426	958,830	936,128
TOTAL LIABILITIES (Add Lines 23 and 27)	(28)	1,490,037	1,542,342	1,516,190
OWNER EQUITY (Subtract Line 28 from Line 15)	(29)	9,110,194	9,221,582	9,165,888
TOTAL LIABILITIES AND OWNER EQUITY (Add Lines 28 and 29)	(30)	10,600,231	10,763,924	10,682,078

Table 2. Statement of Owner's Equity for White County Farms, 2019.

Owner Equity, January 1		9,110,194
Change in Contributed Capital and Retained Earnings:		
Net Farm Income	180,557	
Family Living Withdrawals	-84,340	
Income and Self-Employment Taxes	-11,830	
Additions of Capital	0	
Distributions of Capital	0	
Total Change in Contributed Capital and Retained Earnings		84,387
Change in the Valuation Equity		
Machinery and Equipment	0	
Buildings	0	
Land	27,000	
Total Change in Valuation Equity		27,000
Owner Equity, December 31		9,221,581