Workshop

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amount of money we paid for the asset and how much of the investment we have recaptured using depreciation.

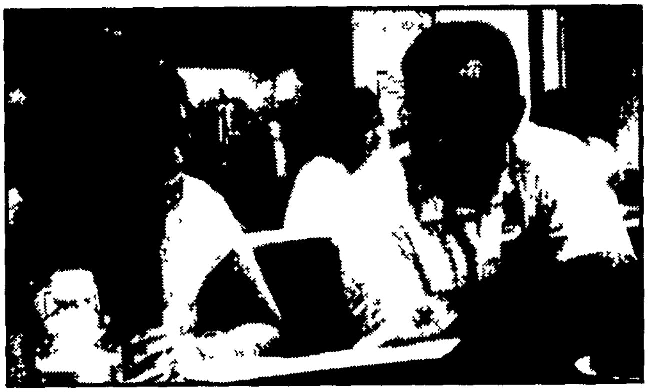
Equity is the value of the business assets we own outright. Equity changes every day with each transaction. Equity equals retained earnings minus owner draws plus owner contributions plus income minus expenses.

Liabilities are everything a business owes, including bank loans, credit card balances, and accounts payable.

Costs and receipts should be correctly captured. Peachey believes firmly in the double-entry system for debits and credits. The balance sheet should be able to provide a good "snapshot" of the operation, he said. Those sheets are the navigational markers on the road of business performance.

The formula, "assets equal liabilities plus equity" provides "the foundation of double-entry accounting," Peachey said. And today's computerized systems provide accurate and automatic ways of doing this.

Peachey provided examples of ways normal business practices affect the formula: When you issue a check to pay for feed, expense formulas are affected.



Melissa Stoltzfus and her father David Martin, Manheim, fill out a practice worksheet during the Dairy Alliance accounting conference in Harrisburg.

- When you borrow money for an operating line of credit, both assets and liability formulas are affected.
- When you write a check for groceries, you are co-mingling personal and business expenses. "No other business does that," said Peachey. "It's something culturally with farming operations."

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