Net Worth Allocation

With this program, the user can allocate market value net worth, or owner equity, into two components: valuation equity and contributed capital & retained earnings.

Analysis of the owner equity section of a balance sheet permits the user to evaluate the amount of equity that has accumulated. Owner equity changes through earnings, withdrawals and by changes in market values.

Valuation Equity

Represents the difference between the cost, or book value, of the assets and the market value of assets less deferred taxes. Securities, breeding stock, machinery, and real estate are the assets that capture most of the difference between cost and market valuation of assets. The changes in market value of these assets are not typically reported on income statements.

Contributed Capital & Retained Earnings

Represents the earnings retained within the business plus any capital contributions of the owners. The retained earnings component is sometimes referred to as earned net worth.

Required Input

Enter the operation's:

- Market Value net worth
- Market Value for various assets and liabilities
- Cost Value for various assets and liabilities

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Navigating the Program

The program contains two worksheets: EARNED NET WORTH and EARNED NET WORTH PRINTABLE FORM. EARNED NET WORTH is the primary worksheet. Inputs are entered in shaded (yellow) boxes while calculations are made in the remaining spaces using the inputs.

The EARNED NET WORTH PRINTABLE FORM worksheet is a printable version of a blank EARNED NET WORTH worksheet. Boxes are left blank, so the user may collect information using this worksheet, and then enter the data into the EARNED NET WORTH worksheet.

The *drop-down box* 

allows the user to ***print data sheets, print blank forms,*** and ***clear values***.

The EARNED NET WORTH worksheet, shown on the next page, contains eight sections:

- Market Value Net Worth
- Asset Adjustments
- Valuation Equity from Assets
- Liability Adjustments
- Valuation Equity Adjustments from Liabilities
- Valuation Equity
- Contributed Capital & Retained Earnings
- Percentage of Total Equity from Valuation Equity and Contributed Capital & Retained Earnings

Inputs are entered in the shaded (yellow) boxes. Information from John and Sally Smith's operation, filled in as shown on the next page, is explained on the following pages.

FAST

Net Worth Allocation of Market Value Net Worth into Valuation Equity & Retained Earnings

Menu Items

for

From:	1/1/2003	
To:	12/31/2003	John and Sally Smith

1.	**Enter Market Value Net Worth**	$3,000,000					
2.	**Asset Adjustments**	Market Values		Cost Values		Valuation Equity Calculations	
	Current Assets	(a)		(b)		(a-b)	
2a.	Marketable securities	$ -	-	$ -	=	$ -	
2b.	Market livestock	-	-	-	=	-	
2c.	Crops and feed	50,000	-	50,000	=	-	
2d.	Other current assets	-	-	-	=	-	
	Noncurrent Assets		-				
2e.	Breeding livestock	$ -	-	$ -	=	$ -	
2f.	Machinery	45,000	-	-	=	45,000	
2g.	Buildings	-	-	-	=	-	
2h.	Land	1,750,000	-	1,500,000	=	250,000	
2i.	Other noncurrent assets	-	-	-	=	-	
3.	**Valuation Equity From Assets (Sum 2a to 2i)**					$ 295,000	
4.	**Liability Adjustments**	(a)				(a)	
4a.	Current portion of deferred taxes	$ 2,100				$ 2,100	
4b.	Noncurrent portion of deferred taxes	39,900				39,900	
4c.	Other liability adjustments	-				-	
5.	**Valuation Equity Adjustments From Liabilities (Sum 4a to 4c)**					$ 42,000	
6.	**Valuation Equity (Line 3 minus Line 5)**						$ 253,000
7.	**Contributed Capital & Retained Earnings (Earned Net Worth) (Line 1 minus Line 6)**						$ 2,747,000
8.	**Percent of Total Equity from:**						
8a.	**Valuation Equity (Line 6 divided by Line 1)**						8%
8b.	**Contribution Capital & Retained Earnings (Line 7 divided by Line 1)**						92%

Valuation equity is the portion of net worth associated with market value changes over time.
Note: This is only an approximation and not a complete reconciliation.

At the top of the EARNED NET WORTH worksheet enter the ***dates*** of the analysis as well as the ***name or description*** of the user. Eight numbered sections/lines follow:

Line 1 *Market Value Net Worth*

The business' equity or the dollar amount remaining if the business were liquidated today and all liabilities were paid. In the example, John and Sally Smith enter $3,000,000.

Line 2 ***Asset Adjustments***
For both current and noncurrent assets, an adjustment is made to calculate valuation equity, or the change in the value of an asset due to market changes over time. The adjustment is the difference between the market value (value today) and the cost value (amount invested in the asset less depreciation claimed) since the asset was acquired. One method for estimating the cost value is to add the purchase price, or trade-in value, to any boot (additional monetary contribution), and then subtract the depreciation already claimed. There are four current assets and five noncurrent asset categories below. For each asset, the market value and cost value are entered, when applicable. The worksheet is programmed to automatically calculate the valuation equity for each asset.

Current Assets

Line 2a is Marketable Securities
Line 2b is Market Livestock
Line 2c is Crops and Feed
Line 2d is Other Current Assets

Noncurrent Assets

Line 2e is Breeding Livestock
Line 2f is Machinery
Line 2g is Buildings
Line 2h is Land
Line 2i is Other Noncurrent Assets

In the example shown below, the Smiths entered the following information:

Current Assets	**Market Value**	**Cost Value**
Marketable Securities	$0	$0
Market Livestock	$0	$0
Crops and Feed	$50,000	$50,000
Other Current Assets	$0	$0
Noncurrent Assets		
Breeding Livestock	$0	$0
Machinery	$45,000	$0
Buildings	$0	$0
Land	$1,750,000	$1,500,000
Other Noncurrent Assets	$0	$0

Line 3 *Valuation Equity from Assets*
The total amount of additional valuation equity for current and noncurrent assets. This value is the sum of the valuation equity calculations for all of the current and noncurrent assets (Line 2a through Line 2i). In the example, the valuation equity from assets is $295,000.

Line 4 *Liability Adjustments*
Three liability categories are listed. The first two categories are deferred taxes. The deferred tax categories represent the potential income tax liability that would result from selling market value assets at levels that exceed cost. The other liability adjustment category is used for liabilities that are stated at market values difference from cost.

Liabilities

Line 4a is Current Portion of Deferred Taxes
Line 4b is Noncurrent Portion of Deferred Taxes
Line 4c is Other Liability Adjustments

In the example, the Smiths entered $2,100 for the current portion of deferred taxes, $39,900 for noncurrent portion of deferred taxes, and $0 for other liability adjustments.

Line 5 *Valuation Equity Adjustments from Liabilities*
The total amount of liability adjustments available to offset "Valuation Equity from Assets" when calculating total "Valuation Equity." This value is subtracted from the "Valuation Equity from Assets," to calculate "Valuation Equity." In the example, the value of the liability adjustments equals $42,000.

Line 6 *Valuation Equity*
The part of net worth that fluctuates due to changes in market valuation. It is the difference between the "Valuation Equity from Assets" (Line 3) and the "Valuation Equity Adjustments from Liabilities" (Line 5). In this example, valuation equity is $253,000.

Line 7 *Contributed Capital & Retained Earnings (CCRE)*
Also known as the earned net worth, this value is the amount of money contributed to the business by the user in addition to the net profit earned less withdrawals from the business. Since net worth equals *CCRE* plus valuation equity, *CCRE* is the difference between the "Market Value Net Worth" (line 1) and "Valuation Equity" (line 6). In the example, John and Sally Smith have contributed capital and retained earnings valued at $2,747,000.

Line 8a *Percent of Total Equity from Valuation Equity*

Display the percentage of net worth that is due to changes in market values. It is the value of “Valuation Equity” (line 6) divided by “Market Value Net Worth” (line 1). In the example, 8% of the net worth is due to the marketplace.

Line 8b *Percent of Total Equity from Contribution Capital & Retained Earnings*

Displays the percentage of net worth the user has from profit and contributions. It is the value of “Contribution Capital & Retained Earnings” (line 7) divided by the “Market Value Net Worth” (line 1). In the example, the Smiths have contributed and earned 92% of their market value net worth.

In conclusion, of the $3,000,000 of market value net worth, John and Sally Smith have contributed and earned 92%, or $2,747,000, of their net worth. A total of 8%, or $253,000, is due to changes in market values.