EC92-888 Farm Financial Records: Accounting Principles

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This is one of a series of four publications which address the use of financial records for farm management.

Other publications include: EC 92-889-C, *Farm Financial Records: Selecting a Computerized Accounting Program*: EC92-890-C, *Farm Financial Records: Financial Analysis*; and EC92-891-C, *Farm Financial Records - Record-Keeping Alternatives for Nebraska Producers*.

In this publication, you will learn about record-keeping in general and accounting in particular. Acceptable accounting practices, financial statements and their use are presented. The objective is to allow you to become familiar enough with accounting to be able to begin using a basic accounting system for various business purposes. This publication selectively chooses those portions of accounting which are applicable to agricultural producers. The examples used deal with agriculture.

Record Uses

Maintaining good records is critical for:

- income tax reporting
- credit acquisition
- reporting to landlords or business partners
- providing information necessary for decision making by the farm manager

Records kept for income tax purposes need only be simple, cash based records. Records for acquiring credit will be more detailed than those for tax purposes but are still relatively simple. Reports to landlords and business partners may be very specific depending on the type of information required. Records for management need to be sufficiently detailed to permit well informed decision making.

Management information is the most important product of a farm record-keeping system. Properly used management information will make the other uses of records simpler. It will also allow a farm manager to identify which enterprises are profitable, spot problem areas within an enterprise, identify potential problems before they occur, and increase the number of decisions which are well thought out.

Keys to Successful Record-keeping

Record-keeping is a task that has been started many times by eager farmers, only to be dropped later. Reasons that complete, accurate records are not kept revolve around lack of time and motivation. Keeping records is productive work!

Keys to Successful Record Keeping

Usefulness
Simplicity

A good record-keeping system should take into account the your needs, abilities and limitations. You need to understand the purpose for keeping the records and when the purpose is known, it will help you decide which records are useful and need to be kept.

Records should be simple yet still satisfy the needs you identify. Keeping overly detailed records might lead to confusion, frustration and failure. Keep only the information necessary to accomplish your purposes. It is a good idea to start out simple and become more complex as your familiarity with the record-keeping system increases.

Appendix 1 contains a Needs Assessment Worksheet designed to help you determine what kind of records are needed and how to get started in keeping those records.

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Accounting

Knowing how to perform accounting tasks and how to read financial statements requires an understanding of accounting principles and concepts. Rules of recording various transactions have been developed so the person using the information knows what has happened and the consequences of those actions. These rules, though useful to persons familiar with them, often frustrate and confuse others.

Accounting is designed to make the financial records of a business useful and understandable to many people. Most importantly, the business owner and manager receive an objective, realistic picture of the business. By standardizing many of the record-keeping decisions, the manager is free to manage the business rather than invent new rules. The detailed procedures also help managers use consistent input in their system so that comparisons can be made between years and between different businesses. Without such rules, erroneous information might be added causing erroneous decision-making.

Additionally, accounting rules allow people outside the business to get a consistently understandable picture of the business. Banks use the financial records of businesses to understand the business's financial health and credit worthiness. Investors use the same statements to make decisions about buying stock or forming a partnership with the business. Government agencies use the records to determine taxes. The accounting rules help standardize the records of all businesses so they are understandable to many.

Users of Farm Financial Records:

The Farm Operator
Lending Agencies
Investors and Partners
Landlords and Tenants
Government Agencies

Accounting Practices

Many accounting systems are available to agricultural producers. While each has its own characteristics, many systems don't fit any neatly defined category. There are several conventional terms which are used in accounting. The following section will discuss accounts, double and single entry accounting, debits and credits, cash and accrual accounting and account valuation.

Accounts

An *account* is any group of items having common characteristics. The term account is common when referring to financial assets, such as checking and savings accounts or financial liabilities, such as a charge account at a local store. For financial record-keeping purposes assets such as grain, livestock and land are also called accounts.

Types of Accounts

Asset
Liability
Equity
Expense
Income

Asset accounts represent items of value owned by the person or business. Assets are things possessing service potential or utility to their owner that can be measured and expressed in monetary terms.

Liability accounts represent the claims that others have against the assets of the person or business. Liabilities have a known or determinable amount, date to be paid, and person to whom payment is made.

Equity accounts track the claims of the owner against the assets of the person or business. Equity, or net worth, is the difference between the value of assets and liabilities. It is an estimate of what would be left if all assets were sold and all liabilities were paid.

Income and *expense* accounts are types of equity accounts with special functions in accounting. The expenses and income associated with production are recorded in these accounts as they occur. Simple accounting systems frequently used by producers often contain only income and expense accounts. These accounting systems track only the income and expenses of a business without trying to maintain a complete record of the value of all accounts at all times.

The *Chart of Accounts* is a listing of all of the accounts being used by a business. An example chart of accounts, such as Appendix 2, gives an idea of the type of accounts under each broad category.

The number of accounts and their degree of detail will vary among businesses depending on the informational needs of those interested in the business. As the number of accounts increases the managerial usefulness of the records generally increases, but so does their complexity. The person keeping and using the records needs to decide how much information is needed before determining how many accounts to have.

Double and Single Entry Accounting Systems

Single entry accounting systems require only one entry for each transaction. An example is a checkbook register. These systems are not concerned with recording how an increase or decrease in an account has

Figure 1: Example single entry transactions

Single Entry Transactions				
Date	**Check No.**	**Account**	**Paid To/Received From**	**Amount**
Oct 1, 1991	222	Feed Expense	Walt's Feed	- 125.00
Oct 3, 1991	Receipt	Hay Income	Mr. Brown	+ 500.00
Oct 5, 1991	223	Land	AG Realty	-80,000.00
Oct 5, 1991	Receipt	Loan	AG Bank	+ 40,000.00
Oct 6, 1991	224	Fuel Expense	Co-op	- 36.50
Oct 6, 1991	224	Supplies	Co-op	- 6.50

occurred. In addition, they may prevent income from being properly matched with expense if care is not taken. Figure 1 contains example transactions for a single entry accounting system.

Double entry accounting systems require two entries, affecting at least two accounts, for each transaction. In Figure 2, the same transactions from Figure 1 are recorded in a double entry fashion. Notice that the amounts listed under the column titled "Debit" equals the amounts listed under the column titled "Credit." Debits equalling credits is one of the basic characteristics of the double entry accounting system.

Agricultural producers frequently use a hybrid single and double entry accounting system. The Nebraska Farm and Ranch Business Record, commonly called the Blue Book, distributed by University of Nebraska Cooperative Extension is a hybrid system. The Blue Book helps track the revenue and expenditures incurred during a time period but does not match income with expenses nor tell whether cash, check or credit was used in any particular transaction.

The rest of this publication uses double entry practices for clarity of discussion.

The Accounting Equation

An understanding of accounting begins with an understanding of the accounting equation. The accounting equation is always maintained in a double entry accounting system. The value of assets will always equal the value of liabilities and equity.

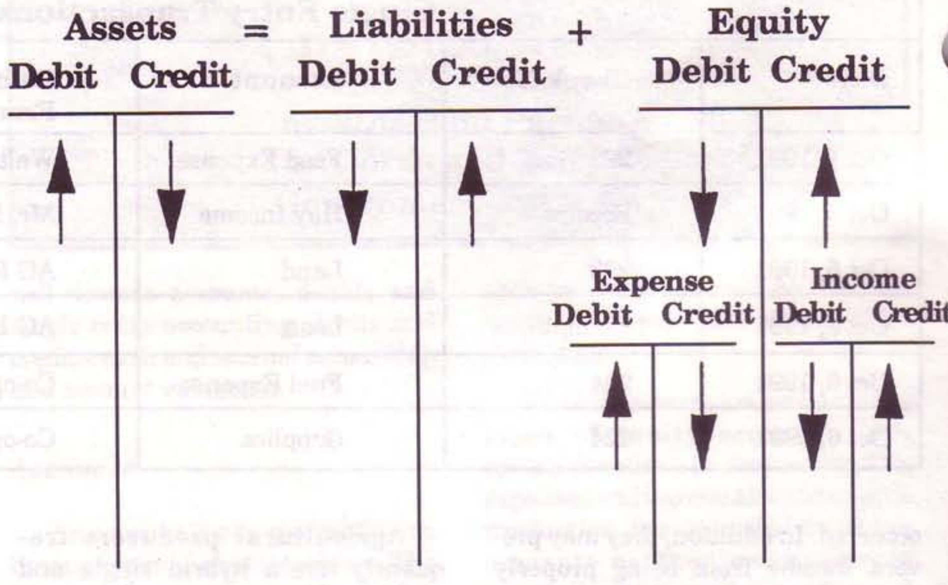
Each account has a left and right side on the transaction log. In accounting, the left side is known as the *debit* side and the right side is known as the *credit* side. To debit an account means to record it on the left side of the log, to credit an account means to record it on the right side of the log. Nothing can be said about

Figure 2: Example double entry transactions

Double Entry Transactions					
Date	**Trans. No.**	**Description**	**Account**	**Debit**	**Credit**
Oct 1, 1991	1010	Walt's Feed CK #222	Feed Expense Checking	125.00	 125.00
Oct 3, 1991	1011	Mr. Brown Sale of Hay	Checking Hay Income	500.00	 500.00
Oct 5, 1991	1012	AG Realty CK #223	Land Checking	80,000.00	 80,000.00
Oct 5, 1991	1013	AG Bank Land Loan	Checking Loan	40,000.00	 40,000.00
Oct 6, 1991	1014	Co-op CK #224	Fuel Expense Supplies Checking	36.50 6.50	 43.00

Accounting Equation: Assets = Liabilities + Equity

Figure 3: Effect of debits and credits on different accounts



whether a debit or credit increases or decreases an account without also specifying the type of account being debited or credited. Debit and credit do not mean increase or decrease. They only mean left and right side. Figure 3 illustrates how a debit and credit affect different types of accounts.

Notice in Figure 2 that the checking account has entries placed on both its debit and credit side. When money is taken out of the checking account, the entry is a credit; when money is put into the checking account, the entry is a debit.

Transactions which are not expenses or income may be entered within a double entry system. Transaction number 1012 from Figure 2 is a purchase of land. Within the double entry system, this is an asset transfer. The transaction decreases the checking account by a credit of $80,000. The land account, another asset account, is increased by a debit of $80,000. Other types of transactions, such as loan receipts or payments, purchases on credit, non-cash transfers between accounts, and recognition of depreciation are handled in similar fashion within a double entry system.

The main characteristic of the debit and credit scheme of a double entry system is the equal and offsetting transactions. Equal and offsetting transactions means that every time an account is debited, an equal value of credits must be applied to one or more accounts. This way of recording transactions maintains the accuracy of the accounting equation. Also, transactions can be tracked because a double entry accounting system records both the origin and the destination of all changes to the accounts.

Cash and Accrual Accounting

Single and double entry refer to the organization of the accounting system. The terms "cash" and "accrual" refer to the timing of entries within the system. Single entry is often equated with a cash-based accounting system; double entry, with accrual. This is **not** necessarily the case. Both single and double entry systems will support either cash- or accrual-based accounting. In a *cash-based system*, transactions are recorded only when cash is received or paid out. In an *accrual-based system*, transactions are recorded when they take place, whether or not cash is involved.

Examples of cash-based transactions are shown in Figure 4. Each of these entries involves the checking account. Figure 5 shows the same set of transactions within an accrual framework. The first transaction shown is for a payment for crop chemicals made in December. This transaction is actually a pre-paid expense for lowering income tax liability. The chemicals purchased in December are not recorded as an expense in December because they are not used until the next year. In essence, one asset (cash) has been exchanged for another asset (pre-paid chemical expense). Pre-paid expenses are an asset because the item purchased has not yet been used but is available for use. The actual chemical expense is incurred, and recorded, when the chemicals are used in March.

Debit Entries Increase	Credit Entries Increase
Asset Accounts Expense Accounts	Liability Accounts Equity Accounts

Figure 4: Example cash based transactions

Cash Based Transactions					
Date	**Trans. No.**	**Description**	**Account**	**Debit**	**Credit**
Dec 20, 1991	602	Co-op CK #156	Crop Expense Checking	1000.00	 1000.00
April 20, 1992	1010	Walt's Feed CK #222	Feed Expense Checking	125.00	 125.00
June 1, 1992	1145	Mr. Brown Sale of Hay	Checking Hay Income	500.00	 500.00
June 15, 1992	1176	Walt's Feed CK #301	Feed Expense Checking	220.00	 220.00

Income from goods delivered but where payment has not yet been received are recorded in a similar fashion. In Figure 5, the May 15 entry shows that hay was sold to Mr. Brown but that no payment was received. Rather than the checking account increasing, the receivable account increased. When payment for the hay is received on June 1, the receivable account is debited as the checking account is credited.

The last transaction in Figure 5 is one which would not show up at all in a cash system. It is a transfer of hay for feed between the hay and cattle enterprises within a farm. There is no cash transfer. However, to evaluate the profitability of individual enterprises within the farm business, the hay enterprise must recognize the value of hay which was transferred as income, and likewise, the cattle enterprise must recognize the value of the hay as an expense. Keeping records by the accrual method will allow for this recognition.

Account Valuation

Every account, in financial records, must have a dollar value. With income accounts, the value received is recorded; with expense

Figure 5. Example accrual based transactions

Accrual Based Transactions					
Date	**Trans. No.**	**Description**	**Account**	**Debit**	**Credit**
Dec 20, 1991	602	Co-op Chemicals-crop	Prepaid Expense Checking	1000.00	 1000.00
Mar 15, 1992	651	Chemicals-crop	Prepaid Expense Crop Expense	 1000.00	1000.00
Mar 20, 1992	756	Walt's Feed Feed on account	Feed Expense Payable	125.00	 125.00
Apr 20, 1992	1010	Walt's Feed CK #222	Payable Checking	125.00	 125.00
May 15, 1992	973	Mr. Brown Sale of Hay	Receivable Hay Income	500.00	 500.00
June 1, 1992	1145	Mr. Brown Sale of Hay	Checking Receivable	500.00	 500.00
June 15, 1992	1176	Walt's Feed CK #301	Feed Expense Checking	220.00	 220.00
Oct. 5, 1992	2021	Transfer hay to Cattle enterprise	Feed Expense Hay Income	750.00	 750.00

accounts, the value paid is recorded. Liability accounts show the dollar amount owed to other businesses and individuals. The asset accounts are more difficult to value because they may not be traded routinely.

Assets valued by *cost basis* use their original cost minus any depreciation which has been taken on them. Each item's value then can be established once a depreciation method is finalized. Assets valued by *market value basis* are recorded as the price which they could bring if sold. Methods of obtaining market values include estimates based on information such as recent auctions or by having an appraiser determine the value of the asset.

Reports

Records are kept for the information they give to various decision makers in the business. Much of the information contained in financial records are used to generate standard reports useful for gauging the health of the business over time and at single points in time.

Common Financial Reports:

Balance Sheet
Income Statement
Cash Flow Statement
Statement of Owner Equity

The Balance Sheet

The accounting equation forms the basis for the balance sheet. Asset account balances are listed on the left side; liability and equity account balances are listed on the right side. The *balance sheet* is prepared for a single day and is a picture of the financial situation of the business at a **single point in time**. It shows the financial health of the business **on the day** it was prepared. The balance sheet details the value of all assets owned by the business on that day, what is owed to creditors on that day, and what portion of the business is retained by the owner as equity. A typical agricultural balance sheet is shown in Appendix 2.

Balance sheets can be prepared for any day of the year. It is common in agriculture for farmers to prepare a balance sheet just before going to their lender for funds. In that case the balance sheet may be prepared on a different, arbitrary day each year. For business analysis it is important that the balance sheet be prepared on the same day of each year. This permits the information contained in the balance sheet to be used in matching income with expenses so that a more realistic picture of the business is obtained.

For most businesses, December 31 of each year is an ideal time to routinely prepare a balance sheet. In agriculture, this is usually a more relaxed time of the year when the record-keeping task doesn't conflict with other work. Tax records are usually associated with a January 1 to December 31 year. Crop agriculture fits particularly well into a December 31 balance sheet because most crops, except perhaps wheat, are not growing and an estimate of the value of growing crops does not need to be made.

Balance sheets tend to be broken down first by time, then by type of asset or liability. Recommended time categories are current and non-current.

Income Statement

The *income statement* is a summary of revenue and expenses for the year. Appendix 2 is an example income statement. The income statement represents a **period of time**. When the income statement represents the time between two balance sheets, the income statement will help explain the change in equity between the beginning and ending balance sheets. The income statement also helps complete IRS Schedule F and has useful information for analyzing the financial performance of a business.

The Gross Revenues and Total Expenses sections form the bulk of the Income Statement. Cash income and expenses are adjusted for changes in inventory (asset) account balances to properly match income and expenses, and to provide useful management information.

If Balance Sheets were prepared on the first and last days of the year under consideration, the inventory account balances can be taken directly from them. The change in the inventory value from one year to the next gives a record of activity occurring in each account during the year. For example, if the feed inventory account increased from one year to the next, it could be assumed that more feed was raised and/or purchased in the year than was fed. This increase in the value of feed on hand should not be considered an expense against the livestock raised in that year. Similarly, if the corn inventory account decreased from one year to the next, it shows that more corn was fed and/or sold in the year than was produced. If this change in inventory is not taken into account, the income from that year will be overstated.

A cash-based income statement unadjusted for inventory changes does not fulfill the accounting principle of matching income with expenses. A producer may incur expenses for the production of a crop in one year and not sell the commodity until the next year. When this occurs under a cash-based accounting system, the income will be overstated in one year and the expenses overstated in another year. A strictly

cash-based income statement may not give an adequate picture of the performance of the business for management purposes. If inventories change during an accounting period, a cash-based income statement is of limited value for management decisions.

Under accrual-based accounting rules, expenses and income are recorded when they occur regardless of whether or not cash is involved. Therefore income is already properly matched with expenses. Expenses may be prepaid in one year, the bulk of the expenses associated with a crop incurred in the next year and the commodity sold in another year, but under accrual accounting the income generated from the sale or use of a commodity will be matched with the expense associated with the production of that commodity.

Enterprise Reports

The whole farm income statement gives an idea of the financial performance of a business. However, most businesses consist of several smaller activities, each of which are expected to generate a profit. These smaller business activities which make up the whole farm are called *enterprises*. An enterprise can be a crop (e.g., corn or wheat), livestock (e.g., cattle or hogs) or business (e.g., custom farming or seed sales) activity which, when considered together, makes up a farm.

An enterprise report may be thought of as an income statement for a particular enterprise. It reports the income, expenses and adjustments of just those items which affect a single enterprise.

Enterprise analysis allows a producer to isolate the financial contribution of separate enterprises to the whole farm's profitability. All enterprises may consistently make a profit for the farm. On the other hand, certain enterprises may consistently lose money and it remains unknown because another enterprise makes sufficient profit to cover the losses. This information is seldom used by persons outside the business but may give the manager the most useful information for decision making.

Cash Flow Plan

The balance sheet presents a picture of the financial status of the farm on a single day. The income statement gives an idea of whether or not an operation is profitable. The cash flow plan gives an idea of whether or not that same operation is feasible. Profitable and feasible are not the same. A profitable operation may not work if sufficient cash is not available when it is needed to finance the business.

The *cash flow plan* reports any activity connected with the cash accounts. It reports the cash inflows and outflows for a specified period of time. The cash flow plan often is divided by month or quarter of the year. A quarterly cash flow plan is shown in Appendix 2.

All **cash** expenses and income items appear. However, cash transactions which are not direct expense or income entries, such as principal received from or paid on loans, and capital asset purchases and sales, will also show up. Family living cash flows are also included. Non-cash income and expense items, such as depreciation expenses and transfer of inventory from one non-cash account into another non-cash account (e.g., corn in inventory into hog feed expense account) are not recorded on the cash flow plan.

There are two types of cash flows records - historical and projected. Historical cash flow records are fairly easy to develop. The transactions which occurred in the cash accounts are separated into months or quarters and listed by the type of revenue or expenditure for which they were used.

Projected cash flow plans are the type creditors want to see when considering loan applications. Realistic estimates must be used when preparing them so that the expected inflow is not overstated and the expected outflow is not understated. Historical cash flow records can help develop a projected cash flow plan because they are a record of what has been done in past years. Previous years' values need to be adjusted to reflect any expected changes in the quantity and prices of any inputs purchased and commodities or services sold. Historical cash flow records can be compared to projected cash flows for the same period to have an idea of how accurate projections have been.

The monthly or quarterly divisions help a producer know **when** cash will be in short supply or in surplus. The cash flow plan reveals if the producer's cash account will meet business needs. It also gives an idea of the size of any cash shortages. The needed cash may then be obtained through a loan or sale of inventory or other assets. The cash flow plan also shows when excess cash may be in a producer's checking account and for how long the cash is expected to be in the account. This excess cash can be invested until needed rather than allowed to remain unproductive.

Statement of Cash Flows

An accounting statement relatively new to agriculture is the Statement of Cash Flows. This statement is not the same as a Cash Flow Plan, discussed above.

The Statement of Cash Flows is an historical record of sources and uses of funds. The three main divisions of the Statement of Cash Flows are Net Cash Provided by Operating Activities, Net Cash Provided by Investing Activities and Net Cash Provided by Financing Activities. The intent of the Statement of Cash Flows is to help manage cash. An example of a Statement of Cash Flows is in Appendix 2.

Statement of Owner Equity

The Statement of Owner Equity report explains the change in owners' equity from the beginning

balance sheet to the ending balance sheet using information available from the income statement and balance sheets. An example of this statement is given in Appendix 2. The relationship of the Statement of Owner Equity to the beginning and ending balance sheets is shown in Figure 6. This statement simply explains the source of any equity changes over the reporting period. This change may be due to net income, changes in inventory valuation or the amount of living expense withdrawn from the business by the owner.

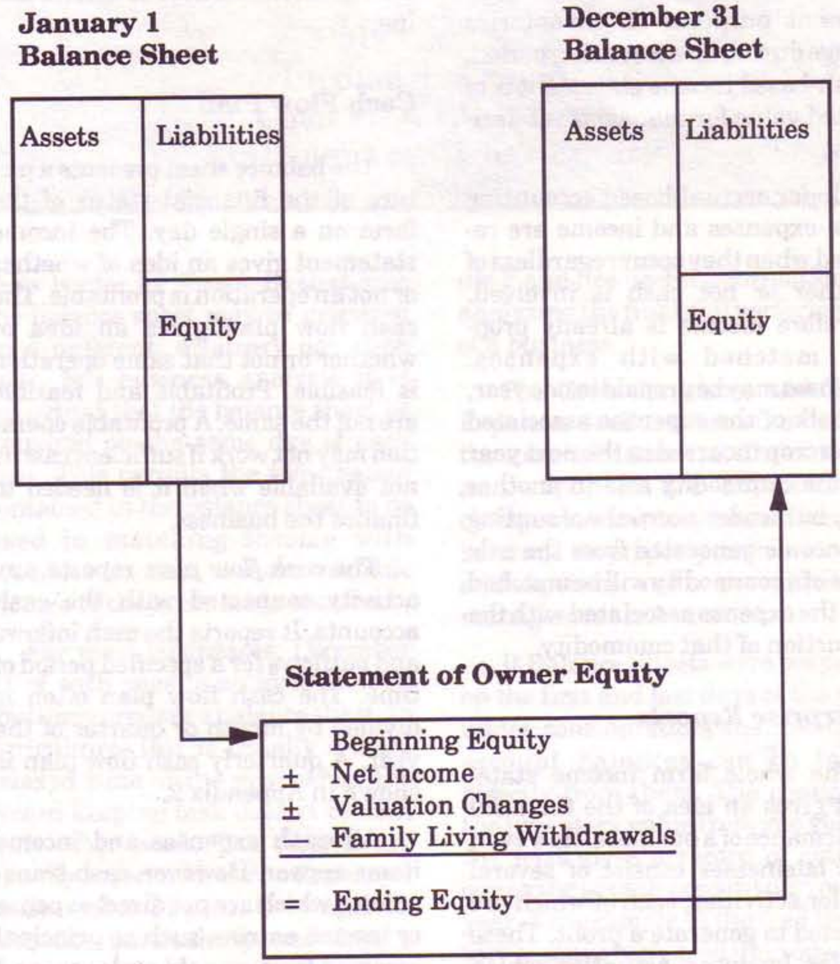
Summary

Record-keeping is work which is often neglected by agricultural producers. The information in records is valuable for making wise management decisions and increasing profitability. A clear picture of what information is needed is essential to consistently keeping accurate records.

The principles of accounting discussed above give guidelines for achieving maximum use from farm business records. The experiences of others who have worked through the difficulty of record-keeping and come up with a working system are found in accounting principles. They simplify the process because they give direction about which records are important and how to record them so that they are understandable and useable for management.

Many producers want the final product of financial record-keeping — the balance sheet, income statement, cash flow plan and statement of owner equity. A lot of work goes into recording transactions **before** the reports are available, and the reports are just aids for effective management. The information contained on these reports needs to be used wisely to manage the whole farm and individual enterprises within the farm.

Figure 6: Relationship of Statement of Owner Equity to beginning and ending balance sheets.



Glossary

Account - any group of items with common characteristics.

Accrual-Based System - accounting system where transactions are recorded when they are incurred, whether cash is involved or not.

Assets - items of value controlled by the person or business.

Balance Sheet - a picture of the financial condition of the business at a single point in time.

Cash-Based System - accounting system where transactions are recorded only when cash is received or paid out.

Cash Flow Plan- a financial report summarizing all activity connected with the cash accounts.

Chart of Accounts - a listing of all of the accounts being used by a business.

Cost Basis - values assets at original cost minus depreciation.

Credit - the right-hand side of an account in a transaction log.

Debit - the left-hand side of an account in a transaction log.

Double Entry Accounting System - accounting systems which records transactions twice; once showing the source of the transaction and once showing the destination of the transaction.

Enterprise - smaller business activities which make up the whole farm. An enterprise can be a crop (e.g., corn or wheat), livestock (e.g., cattle or hogs) or business (e.g., custom farming or seed sales) activity which when considered together makes up a farm.

Equity - the value of assets minus all liabilities. The money value of the business in excess of the claims against it.

Income Statement - a summary of the level of revenue and expenses for the year.

Liabilities - claims that others have against the assets of the person or business.

Market Value Basis - values an asset by using the price which it is believed to be worth on the day of the balance sheet.

Net Worth - equity.

Single Entry Accounting Systems - records transactions once.

APPENDICES

1. Needs Assessment Worksheet

2. Accounting Statement Examples

Needs Assessment Worksheet

How will your records be used?	Reports required:	Needed? Yes/No	Comments
Income Tax Reporting	Cash basis income statement, depreciation schedule		
Reporting financial performance to creditors	Accrual adjusted income statement		
Reporting financial position to creditors	Market value balance sheet		
Reporting lease performance to landlords	Profitability reports by farm or enterprise, inventory records		
Reporting business performance to partners and/or shareholders	Accrual adjusted income statement, market and cost basis balance sheets		
Management decision making - business profitability - enterprise performance - projecting future performance	 Accrual adjusted income statement, market and cost basis balance sheets, Enterprise profitability reports, production records Budgeting reports, i.e. Cash Flow Plan, and enterprise budgets		
Other:			

What are your resources?	Record keeping implications:	Applicable Yes/No	Comments
Level of accounting expertise - Low - Medium to high	 Single entry cash records, or record service, adequate record keeping support from record keeping advisor No restrictions, maintain skills		
Computer availability and expertise - no computer available - novice computer user - Medium to advanced computer user Time available for maintaining records - moderate level of time available - little time available	 Hand kept records, or record service User friendly software with adequate support No software restrictions Hand kept records, computer records may save time Record service		
Money available for record keeping* - under $100 - $100-$400 - $400-$1,000 - over $1,000	 Hand kept records, or low end general business software Low end farm record software, or low end record service (annual charge) Advanced farm record software or advanced record service support (annual charge) Advanced farm record software, with optional financial and production record modules		

What special record keeping needs do you have?	Record keeping implications:	Applicable Yes/No	Comments
Detailed enterprise production records	Production record service or optional production record software with high end farm accounting software		
Tracking payroll for many employees	Accounting service or optional payroll module with high end farm accounting software		
Large number of accounts receivable/ payable	Accounting service or optional receivables/ payables module with high end farm accounting software		
Other:			

* Money available should not include the cost of accountant's fees, which may be necessary with any option.

Appendix 2 Example Chart of Accounts

Account No.	Description
	ASSETS
1000-00	Current Assets
1020-00	Checking Account
1030-00	Savings Account
1041-00	Hedging Account
1050-00	Retirement Account
1210-60	Inventory-Mkt Hogs Purch.
1230-70	Inventory-Mkt Cattle Purch.
1400-00	Non-Current
1460-00	Farmers Co-op Equity
1510-60	Breeding Hogs Purchased
1530-70	Breeding Cattle Purchased
1610-00	Machinery & Equipment
1710-00	Building & Improvements
1720-00	Farm Real Estate
	LIABILITIES
2000-00	Current Liabilities
2010-00	Operating Loan
2020-00	Other Short Term Notes
2400-00	Non-Current Liabilities
2410-00	Intermediate Term Notes
2417-00	Pickup
2420-00	Facility Loan
2425-00	Other Intermediate Term Notes
2610-00	FLB - Real Estate
2620-00	FmHA - Real Estate
2630-00	Other Long Term Notes
	INCOME
3100-00	Market Livestock Sales
3110-60	Market Hogs
3140-70	Market Cattle
3200-00	Crop Sales
3210-10	Soybeans
3220-20	Corn
3230-00	Grain Sorghum
3240-00	Wheat
3250-00	Hay
3260-00	Misc. Crops
3400-00	Other Farm Income
3410-00	Machine Hire
3420-00	Patronage Dividends
3430-00	Government Payments
3440-00	Crop Insurance Proceeds
3460-00	Misc. Farm Income
3470-00	Hedging Gains/ Losses
3700-00	Breeding Livestock Sales
3710-60	Breeding Hogs
3740-70	Breeding Cattle
3800-00	Other Business Income
3810-00	Retail Seed Sales
4000-00	Cost of Sales
4110-60	Market Hogs
4130-70	Market Cattle
4510-00	Seed - Dealer Cost

No.	Description
	EXPENSES
5000-00	Labor Expense
5010-00	Salaries & Wages
5270-00	Payroll Tax Expense
5280-00	Employee Insurance& Benefits
5300-00	Other Operating Expense
5310-00	Machinery & Equipment Repairs
5320-00	Building & Improvement Repairs
5340-00	Pickup & Truck Expense
5350-00	Irrigation Repairs
5410-00	Interest
5420-00	Rent
5451-00	Grain (Feed)
5452-00	Hay
5453-00	Commercial Feed
5510-00	Seed
5520-00	Fertilizer
5530-00	Pesticides
5540-00	Drying & Storage
5550-00	Machine Hire
5570-00	Supplies & Small Tools
5610-00	Breeding Fees
5620-00	Veterinary Fees, Medicine
5630-00	Other Livestock Expense
5650-00	Gasoline, Fuel & Oil
5660-00	Irrigation Fuel
5710-00	Taxes (Real Estate & Personal Property)
5730-00	Utilities
5750-00	Conservation Expenses
5760-00	Land Clearing Expenses
5810-00	Auto Expense
5820-00	Dues & Subscriptions
5830-00	Office & Bank Charges
5840-00	Legal, Acct. & Prof. Fees
5850-00	Other Misc. Expense
7600-99	Non-Farm Income
7610-99	Wages
7620-99	Interest Income
7630-99	Dividend Income
7640-99	Other Non-Farm Income
7650-99	Refunds & Reimbursements
7660-99	Nontaxable Receipts/Gifts
8000-99	Family Living
8010-99	Food
8020-99	Clothing
8030-99	Auto Expense
8040-99	Utilities
8050-99	Recreation
8090-99	Life Insurance
8100-99	Medicine & Drugs
8110-99	Medical (Doctor, Dentist, Insurance)
8120-00	Charitable Contributions
8130-99	Other Deductible Expenses
8200-99	Other Family Living Expenses
8900-99	Cash Withdrawals
9100-99	Income Taxes
9110-99	Federal Income Tax
9120-99	State Income Tax

Example Balance Sheet

Name ______________________________ As of ______________

ASSETS		LIABILITIES	
Cash	$	Accounts Payable	$
Marketable Securities		Notes Due Within One Year	
Inventories		Current Portion of Term Debt	
Accounts Receivable		Accrued Interest	
Prepaid Expenses		Income Taxes Payable	
Cash Investment in Growing Crops		Current Portion - Deferred Taxes	
Current Assets — Personal		Other Accrued Expenses	
Other Current Assets		Current Portion — Personal Liabilities	
		Other Current Liabilities	
Total Current Assets	$	**Total Current Liabilities**	$
Breeding Livestock	$	Non-Current Portion — Notes Payable	$
Machinery & Equipment		Non-Current Portion — Real Estate Debt	
Investments in Capital Leases		Non-Current Portion — Personal Liabilities	
Investments in Other Entities		Non-Current Portion — Deferred Taxes	
Investments in Cooperatives		Other Non-Current Liabilities	
Retirement Accounts		**Total Liabilities**	
Other Personal Assets		**OWNER EQUITY**	
Real Estate		Contributed Capital	
Buildings and Improvements		Retained Earnings	
Other Assets		Valuation/Personal Asset Equity	
Total Non-Current Assets	$	**Total Equity**	$
Total Assets	$	**Total Liabilities and Owner Equity**	$

NOTE: This Balance Sheet includes both personal and business assets and liabilities.

Example Income Statement

Name ______________________ for the period __________ through __________

Crop Cash Sales .... $______

+/- Change in Crop Inventories .... ______

Gross Revenues from Crops .... $______

Market Livestock/Poultry Cash Sales .... ______

+/- Change in market Livestock/Poultry Inventories .... ______

Gross Revenues from Market Livestock/Poultry .... ______

Livestock Products .... ______

Government Programs .... ______

Change in Value Due to Change in Quantity of Raised Breed Stock .... ______

Gain/Loss from Sale of Culled Breeding Stock .... ______

Change in Accounts Receivable .... ______

Other Farm Income .... ______

Gross Revenues .... $______

Purchased Feed/Grain .... $______

Purchased Market Livestock .... ______

Other Cash Operating Expenses .... ______

+/- Accrual Adjustments .... ______

Depreciation Expense .... ______

Total Operating Expenses .... $______

Cash Interest Paid .... $______

+/- Change in Interest Payable .... ______

Total Interest Expense .... $______

Total Expenses .... $______

Net Farm Income from Operations .... $______

Gains/Loss on Sale of Farm Capital Assets .... ______

Net Farm Income .... $______

Wages .... $______

Other Non-Farm Income .... ______

Total Non-Farm Income .... $______

Income Before Taxes & Extraordinary Items .... $______

Cash Income Tax Expense .... $______

+/- Change in Income Tax Accruals .... ______

+/- Change in Current Portion of Deferred Taxes .... ______

Total Income Tax Expense .... $______

Income Before Extraordinary Items .... $______

Extraordinary items (Net of Tax) .... ______

Net Income .... $______

CASH FLOW PLANNING FORM

Date Completed_______________ Name____

Address

		Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
CASH FLOW IN	1. Beginning Cash Balance					
	Operating Sales					
	2. Crops					
	3. Livestock & Livestock Products					
	4.					
	5. Other (Custom Work, Govt. Pmts., etc.)					
	Capital Sales					
	6. Breeding Livestock					
	7. Machinery & Equipment					
	8.					
	9. Other					
	10. Non-farm Income					
	11. TOTAL CASH AVAILABLE (Add lines 1 thru 10)					
CASH FLOW OUT	**Operating Expense**					
	12. Labor Hired					
	13. Repairs & Maintenance					
	14. Rents & Leases					
	15. Feed Purchased					
	16. Seeds & Plants					
	17. Fertilizer, Lime & Chemicals					
	18. Machine Hire					
	19. Supplies					
	20. Livestock Expense (Breeding, Vet. etc.)					
	21. Gas, Fuel, Oil					
	22. Storage, Warehousing					
	23. Taxes (Real Estate & Pers. Property)					
	24. Insurance (Property, Liability, Hail)					
	25. Utilities (Electricity, Telephone)					
	26. Freight & Trucking					
	27. Auto (if not included in other items)					
	28.					
	29. Feeder Livestock (purchased for resale)					
	30. Miscellaneous					
	Capital Expense					
	31. Breeding Livestock					
	32. Machinery					
	33.					
	34. Other					
	35. Family Living Expense					
	36. Income Tax & Social Security					
	37. Fixed Term Loan Payments Due — Principal					
	38. — Interest					
	39. TOTAL CASH REQUIRED (Add lines 12 thru 38)					
SUMMARY	40. CASH AVAILABLE less CASH REQUIRED (11-39)					
	41. Money to Be Borrowed (if line 40 is negative)					
	42. Debt Payments (if line 40 is positive) — Principal					
	— Interest					
	43.					
	44. Ending Cash Balance					
	45. OPERATING LOAN BALANCE (at End of Period)					

Example Statement of Cash Flows

Name ______________________ **For the period** ____________ **through** ____________

Cash Received from Operations	+	
Cash Received - Non-Farm Income	+	
Cash Paid for Feeder Livestock, Purchased Feed and Other Items for Resale	–	
Cash Paid for Operating Expenses	–	
Cash Paid for Interest	–	
Net Cash - Income & Social Security Taxes	–	
Net Cash - Other Operating Activities		
Net Cash Income		
Cash Withdrawals for Family Living	–	
Net Cash Provided by Operating Activities		
Cash Received from Sale of Breeding Livestock (Other than normal culling)	+	
Cash Received from Sale of Machinery & Equipment	+	
Cash Received from Sale of Real Estate & Buildings	+	
Cash Received from Sale of Marketable Securities	+	
Cash Received from Sale of Personal Assets/Retirement Account Withdrawals	+	
Cash Paid to Purchase Breeding Livestock	–	
Cash Paid to Purchase Machinery & Equipment	–	
Cash Paid to Purchase Real Estate & Buildings	–	
Cash Paid to Purchase Marketable Securities	–	
Cash Paid to Purchase Personal Assets/Retirement Account Deposits	–	
Net Cash Provided by Investing Activities		
Proceeds from Operating Loans	+	
Proceeds from Term Debt Financing	+	
Cash Received - Capital Contributions, Gifts, Inheritances	+	
Scheduled Principal Payments - Term Debt	–	
Unscheduled Principal Payments - Term Debt	–	
Principal Paid on Capital Lease Obligations	–	
Repayment of Operating and CCC Loans	–	
Dividends and Capital Distributions	–	
Net Cash Provided by Financing Activities		
Net Increase (Decrease) in Cash		
Cash at Beginning of Year		
Cash at End of Year		

Example Statement of Owner Equity

Name ______________________ **For the period** ________ **through** ________

Owner Equity, Beginning of Period .... $________

Net Income/Loss .... $________

Withdrawals for Family Living .... ________

Capital Contributions/Gifts/Inheritances .... ________

Capital Distributions/Dividends/Gifts Made .... ________

Total Change in Contributed Capital and Retained Earnings .... $________

Change in Excess of Market Value over Cost/Basis of Marketable Securities and Farm Capital Assets .... $________

Change in Value of Personal Assets .... ________

Change in Value of Personal Liabilities .... ________

Change in Non-Current Portion — Deferred Taxes .... ________

Total Change in Valuation Equity .... $________

Owner Equity, End of Period .... $________

Example Statement of Owner Equity

Name ______________________ For the period ______________ to ______________

Owner Equity, Beginning of Period .... $__________

Net Income/Loss .... $__________

Withdrawals for Family Living .... __________

Capital Contributions/Gifts/Inheritances .... __________

Capital/Distributions/Dividends/Gifts Made .... __________

Total Change in Contributed Capital and Retained Earnings .... $__________

Change in Valuation of Market Value over Cost Basis of Marketable Securities and Other Capital Assets .... $__________

Change in Value of Personal Assets .... __________

Change in Value of Personal Liabilities .... __________

Change in Non-Current Portion of Deferred Taxes .... __________

Total Change in Valuation Equity .... $__________

Owner Equity, End of Period .... $__________