Farm Financial Statements

• Net Worth Statement √
• Statement of Cash Flows
• Net Income Statement
• Statement of Owner Equity
Recording Transactions in the Cash Journal

- Date
- Description
- Value
- Amount (bu., lb., etc)
- To (from) whom
- Enterprise (optional)
- Production period (optional)
Transactions can be:

- Receipts (cash inflows)
- Expenditures (cash outflows)
Transactions are Posted to 4 Types of Accounts

- Production
- Investment
- Financing
- Nonfarm
<table>
<thead>
<tr>
<th></th>
<th>Sources (inflows)</th>
<th>Uses (outflows)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Production</strong></td>
<td>Income</td>
<td>Expenses</td>
</tr>
<tr>
<td><strong>Investing</strong></td>
<td>Sales of capital assets</td>
<td>Purchases of capital assets</td>
</tr>
<tr>
<td><strong>Financing</strong></td>
<td>Loans received</td>
<td>Principal repaid</td>
</tr>
<tr>
<td><strong>Nonfarm</strong></td>
<td>Wages, rent</td>
<td>Living, taxes</td>
</tr>
</tbody>
</table>
# Cash Flow Summary for Year 3

## Farm Number

### Operating Income:

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corn Sales</td>
<td>$25,200</td>
</tr>
<tr>
<td>Soybean sales</td>
<td>23,917</td>
</tr>
<tr>
<td>Feeder cattle</td>
<td>90,000</td>
</tr>
<tr>
<td>Crop insurance payment</td>
<td>0</td>
</tr>
<tr>
<td>Cattle sales</td>
<td>266,929</td>
</tr>
<tr>
<td>Hog sales</td>
<td>101,041</td>
</tr>
<tr>
<td>Sow and boar sales</td>
<td>4,386</td>
</tr>
</tbody>
</table>

### Capital Asset Sales:

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Machinery and comb. sales</td>
<td>0</td>
</tr>
</tbody>
</table>

### Borrowing:

<table>
<thead>
<tr>
<th>Type</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emergency</td>
<td>$1,101</td>
</tr>
<tr>
<td>Operating</td>
<td>10,000</td>
</tr>
<tr>
<td>Machinery</td>
<td>0</td>
</tr>
<tr>
<td>Combine</td>
<td>0</td>
</tr>
<tr>
<td>Hog facilities</td>
<td>0</td>
</tr>
<tr>
<td>Land</td>
<td>0</td>
</tr>
<tr>
<td>Carryover operating</td>
<td>0</td>
</tr>
</tbody>
</table>

**Total cash inflow 522,574**
### Cash Outflows

#### Operating Expense:
- Seed, fertilizer, chem.: 21,540
- Crop insurance premium: 0
- Fuel and oil: 3,832
- Custom machine hire: 9,525
- Machinery repairs: 1,158
- Cash rent: 0
- Feeder cattle purchased: 92,400
- Grain purchased: 45,886
- Hay and supplement: 31,126
- Veterinary and health: 10,250
- Hauling, commission: 7,200
- Boars, gilts purchased: 1,600
- Property tax: 5,506
- Insurance on bldg., mach.: 1,148
- Building repairs: 675
- Utilities: 5,900
- Hired labor: 3,000
- Grain storage: 0
- Interest paid: 28,809

#### Capital Assets:
- Machinery purchase: 0
- Combine purchase: 0
- Hog facilities purchase: 0
- Land purchase: 0

#### Principal paid:
- Operating: 10,000
- Cattle: 162,000
- Machinery: 24,600
- Combine: 0
- Swine facilities: 0
- Emergency loan: 1,101
- Land: 10,000

#### Nonfarm:
- Family living expenses: 30,000
- Income tax paid: 0

#### Total cash outflow: 507,257
Summary

Cash on hand, Jan. 1 16,261
+ Total cash inflow 522,574
- Total cash outflow 507,257
= Cash remaining, Dec. 31 31,578
Chart of Accounts Detail (cash inflows)

- 101  Corn sales
- 102  Hog sales
- 110  USDA payments
- 201  Machinery sales
- 301  Operating loan received
- 410  Nonfarm interest earned
Chart of Accounts Detail (cash outflows)

- 612  Soybean seed
- 631  Cash rent paid
- 710  Hog equipment purchase
- 833  Cow loan payment (prin.)
- 633  Cow loan payment (interest)
- 925  Family medical insurance
Net Farm Income Statement
(Profit and Loss Statement)

Total Income

- Total Expenses

= Net Farm Income
Cash or Accrual Accounting?

• Cash Accounting
  – Record income when it is sold
  – Record expenses when paid

• Accrual Accounting
  – Record income when it is produced
  – Record expenses when they are incurred
Many farmers use cash accounting and make accrual adjustments at the end of the year.
Step 1. Record **Cash Income** and **Cash Expenses** from the *Statement of Cash Flows*

Cash income
- cash expenses
  = **Cash Net Farm Income**

*(do not include loans, capital assets, or nonfarm transactions)*
Step 2: Make **Accrual** Adjustments at end of the Year

- Adjust income for products that are produced by not sold yet

- Adjust expenses for
  - Bills not paid yet
  - Expenses paid in advance
Accrual Adjustments to Income

+ Ending NW value
  • Crops in inventory (grain, hay, silage)
  • Growing crops
  • Market livestock in inventory
  • Breeding livestock (if not depreciated)
  • Accounts receivable

– Beginning NW value of same assets

Use values from Current Assets section of net worth statement.
Accrual Adjustments to Expenses

Change in accounts payable:
  + Ending value
  – Beginning value

(from Current Liabilities section of Net Worth Statement)
Accrual Adjustments to Expenses

Change in expenses paid in advance:
- prepaid expenses
- supplies on hand

- Ending value
+ Beginning value

(from Current Assets on NW Statement)
Capital Assets

Accrual adjustment to intermediate and long-term assets is made through:

Depreciation expense

Exception: land
Cash Income +/- adjustments
minus
Cash Expenses +/- adjustments
equals
Net Farm Income from Operations

+/-Capital gains (or losses)
equals
Net Farm Income
Capital Gain or Loss

• Difference between the selling price of a capital asset and its cost (depreciated) value.

• Can be positive (capital gain) or negative (capital loss)
Farm Financial Statements

- Net Worth Statement ✓
- Statement of Cash Flows ✓
- Net Income Statement ✓
- Statement of Owner Equity
Net Worth and Net Farm Income

Beginning Net Worth + Net Farm Income - Withdrawals = Ending Net Worth
Market Value Net Worth is also affected by:

- Changes in the market values of capital assets
## Statement of Owner Equity

<table>
<thead>
<tr>
<th></th>
<th>Cost</th>
<th>Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning Net Worth</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>+ Net Farm Income</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>- withdrawals (+ contributions)</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>= End Net Worth (cost value)</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>+/- changes in capital asset values</td>
<td>--</td>
<td>X</td>
</tr>
<tr>
<td>= Ending Net Worth (market value)</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>
Statement of Owner Equity for Year 3

**Farm Number 150**

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost Value</th>
<th>Market Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning farm net worth</td>
<td>$520,865</td>
<td>$546,465</td>
</tr>
<tr>
<td>Plus change in market value of land</td>
<td>XXX</td>
<td>+21,000</td>
</tr>
<tr>
<td>Plus accrual net farm income</td>
<td>+84,671</td>
<td>+84,671</td>
</tr>
<tr>
<td>Minus withdrawals for family living and income taxes</td>
<td>-30,000</td>
<td>-30,000</td>
</tr>
<tr>
<td>Equals ending net farm worth</td>
<td>=575,536</td>
<td>=622,136</td>
</tr>
<tr>
<td>Change in net worth</td>
<td>$54,671</td>
<td>$75,671</td>
</tr>
</tbody>
</table>
Single and Double-Entry Accounting

- Single Entry: record income and expenses during the year, but assets and liabilities only at the end of the year.

- Double Entry: record both income and expenses and changes to assets and liabilities as you go (credits and debits)
Double-Entry Example

1. Harvest grain and sell it
   + Increase Grain Sales account (income)
   + Increase Cash on Hand account (asset)

2. Buy skid loader on installment plan
   + Increase Machinery account
   + Increase Machinery Loan account (liability)
Double-entry Examples

3. Pay back cattle loan--principal
   - Reduce Cash on Hand account (asset)
   - Reduce Cattle Loan account (liability)

4. Pay cash rent bill
   - Reduce Cash on Hand account (asset)
   + Increase Rent Expense account (expense)
Advantages to Double Entry

• Net Worth Statement is always up to date.
• Can check accuracy by comparing account values to actual balances and inventories.
• Accrual adjustments are made automatically