

Cash to Accrual Income Approximation

With this program, the user can estimate accrual income using the Schedule F from his/her federal income tax return.

Farmers typically report taxable income and expenses on a cash basis for a calendar year. With cash-basis accounting, revenue and expenses are realized when cash is received or expenses paid irrespective of when goods are produced or expenses incurred. Accrual-basis accounting, in comparison, more accurately characterizes the business' profitability. With accrual-basis accounting, revenue represents the value of items produced during a given period and expenses represent the costs incurred by the business during a given period. Accrual income can be approximated from cash-basis income when adjustments in the value of assets and liabilities are made, which adjust the net profit or loss calculated on the Schedule F.


Navigating the Program

Main Menu

The main menu gathers and displays values for the accrual adjustments. It allows the user to enter information in the shaded boxes (A, B, P, Q, R, and T). The data in the remaining boxes are calculated automatically by the program using *supplemental worksheets* or previously calculated information.



The example below represents John and Sally Smith's financial information.



Accrual Approximation from Schedule F

Schedule F to Accrual Income Approximation

for

Menu Items John and Sally Smith

	From	To		Value
	1/1/2003	12/31/2003		
<hr/>				
A.	Line 36 Schedule F. Net Farm Profit (or Loss)			\$ 59,053
B.	Line 2, 10, & 20 Form 4797. Gross Sales Price of Breeding Livestock			\$ 75,000
C.	Accrual Asset Items			
D.	Box 1 Crops Inventory Change	<input type="button" value="GoTo"/>	(2,340)	
E.	Box 2 Livestock Inventory Change	<input type="button" value="GoTo"/>	(200)	
F.	Box 3 Accounts Receivable Change	<input type="button" value="GoTo"/>	10,000	
G.	Box 4 Prepaid Expense Change	<input type="button" value="GoTo"/>	(7,000)	
H.	Box 5 Other Accrual Assets Change	<input type="button" value="GoTo"/>	(500)	
I.	Total		Sum (D to H)	\$ (40)
J.	Accrual Liability Items			
K.	Box 6 Accounts Payable Change	<input type="button" value="GoTo"/>	71,000	
L.	Box 7 Accrued Interest Change	<input type="button" value="GoTo"/>	(1,250)	
M.	Total		Sum (K to L)	\$ 69,750
N.			Sum A + B + I - M	\$ 64,263
O.	Cost of Livestock Adjustments			
P.	Total Purchased Feeder and Breeding Livestock for the Year	+		10,000
Q.	Line 2 Schedule F. Cost or Other Basis of Livestock	-		25,000
R.	Livestock Depreciation Included in Schedule F Line 16	-		1,200
S.	Livestock Adjustments		P - Q - R	\$ (16,200)
T.	Other Income Adjustments for CCC and Crop Insurance			(15,000)
U.	Accrual Income Approximation		N - S + T	\$ 65,463

Inputs

This represents changes in livestock inventory and/or prices from the beginning of the year to the end of the year. To record livestock information, click [Go To](#) on Line E to display the special worksheet. Enter a description for each type of livestock, the quantity, and price.

In the example below, John and Sally Smith have 10 cows valued at \$400 per head and 200 hogs valued at \$125 each at the beginning of the year. At the end of the year, they have 180 hogs valued at \$160 each and no cattle. The beginning-of-the-year livestock value is \$29,000, while the end-of-the-year value is \$28,800. The net change is -\$200. This value is automatically displayed on Line E of the Main Menu.

2. Livestock Inventory Change

Beginning of year				End of year				
Description	Quantity	Unit Price	Value	Description	Quantity	Unit Price	Value	
Cows	10	400	4,000	Hogs	180	160	28,800	
Hogs	200	125	25,000		-	0	-	
	-	0	-		-	0	-	
	-	0	-		-	0	-	
	-	0	-		-	0	-	
	-	0	-		-	0	-	
	-	0	-		-	0	-	
Total			^a 29,000	Total			^b 28,800	¹ Net Change (b-a) (200)

Line F Accounts Receivable Change

This represents changes in accounts receivables from the beginning of the year to the end of the year. To record accounts receivable information, click [Go To](#) on Line F to display the special worksheet. Enter a description and value for each account receivable.

In the example below, the Smiths record \$10,000 for custom work for which John has not been paid. The total value at the beginning of the year is zero, while the value at the end of the year is \$10,000. The net change is \$10,000. This value is automatically displayed on Line F of the Main Menu.

3. Accounts Receivable Change

Beginning of Year		End of Year		
Description	Value	Description	Value	
	-	Custom Work	10,000	
	-		-	
	-		-	
	-		-	
	-		-	
Total		^a -	^b 10,000	³ Net Change (b-a) 10,000

Line G Prepaid Expense Change

This represents changes in prepaid expenses from the beginning of the year to the end of the year. To enter prepaid expense information, click [GoTo](#) on Line G to display the special worksheet. Enter a value for fertilizer, seed, pesticides, fuel and insurance. If a prepaid expense does not match one of the categories, enter it in the "Other" category.

In the example below, the Smiths prepay \$31,500 for seed and \$8,500 for pesticides for the 2003 crop at the beginning of the year. At the end of the year, they prepay expenses for the 2004 crop, totaling \$33,000 for seed. The total value at the beginning of the year is \$40,000, while the value at the end of the year is \$33,000. The net change is -\$7,000. This value is automatically displayed on Line G of the Main Menu.

4. Prepaid Expenses Change

Beginning of Year		End of Year	
Description	Value	Description	Value
Fertilizer	-	Fertilizer	-
Seed	31,500	Seed	33,000
Pesticides	8,500	Pesticides	-
Fuel	-	Fuel	-
Insurance	-	Insurance	-
Other	-	Other	-
Total ^a		Net Change (b-a)	
40,000		^b 33,000	^d (7,000)

Line H Other Accrual Assets Change

This represents changes in other accrual assets from the beginning of the year to the end of the year that are not reported on any of the other supplemental worksheets. To enter changes, click [GoTo](#) on Line H to display the special worksheet. A value may be entered for growing crops and supplies. If additional adjustments exist, enter a description and value for the adjustments in the shaded spaces under "Supplies."

In the example below, John and Sally Smith have \$3,000 worth of supplies at the beginning of the year and \$2,500 worth of supplies at the end of the year. The net change is -\$500. This value is automatically displayed on Line H of the Main Menu.

5. Other Accrual Asset Adjustments

Beginning of Year		End of Year	
Description	Value	Description	Value
Growing crops	-	Growing crops	-
Supplies	3,000	Supplies	2,500
	-		-
	-		-
	-		-
	-		-
Total ^a 3,000		b 2,500	
			⁵ Net Change (b-a) (500)

Line I Total Adjustments Made for Accrual Assets

This is the sum of changes made for crop inventory, livestock inventory, accounts receivable, prepaid expenses, and other accrual assets. The Smith’s total adjustments for accrued assets equal -\$40.

Line J Accrual Liability Items

Accrual liabilities are liabilities that have been incurred during a given period of time without cash necessarily being exchanged. For example, a producer may have an account with the implement dealer on which a repair expense is charged. At the end of the year, the producer has not yet paid this expense. It does not affect the farmer’s cash-basis tax return, but, for accrual purposes, the expense is accounted for as it occurred during harvest of the 2003 crop. This means it reduces net farm profit.

Line K Accounts Payable Change

This represents changes in accounts payables from the beginning of the year to the end of the year. To enter accounts payable information, click on Line K to display the special worksheet. Values may be entered for payroll tax, rent, repairs, fuel, drying, storage, fertilizer, seed, pesticides, insurance, machine hire, and real estate tax. If additional accounts payable exist, enter a description and value on the lines under “Real Estate Tax.”

In the example on the next page, John and Sally Smith record a drying expense of \$1,500 and a storage expense of \$1,000 for the beginning of the year. At the end of the year, they owe \$8,000 for repairs, \$500 for fuel, \$8,000 for drying, \$8,000 for storage, \$34,000 for fertilizer and \$15,000 for insurance. The total

value for the beginning of the year is \$2,500, while the value at the end of the year is \$73,500. The net change is \$71,000. This value is automatically displayed on Line K of the Main Menu.

6. Accounts Payable Change

Beginning of Year		End of Year	
Description	Value	Description	Value
Payroll tax	-	Payroll tax	-
Rent	-	Rent	-
Repairs	-	Repairs	8,000
Fuel	-	Fuel	500
Drying	1,500	Drying	8,000
Storage	1,000	Storage	8,000
Fertilizer	-	Fertilizer	34,000
Seed	-	Seed	-
Pesticides	-	Pesticides	-
Insurance	-	Insurance	15,000
Machine Hire	-	Machine Hire	-
Real Estate Tax	-	Real Estate Tax	-
	-		-
	-		-
Total		Net Change (b-a)	
^a 2,500		^b 73,500	^c 71,000

Line L Accrued Interest Change

This represents changes in accrued interest from the beginning of the year to the end of the year. To enter accrued interest information, click [GoTo](#) on the “Accrued Interest Change” line to display the special worksheet. Enter a description and value for each accrued interest item.

In the example on the next page, John and Sally Smith have a loan with the State Bank of Corn. The accrued interest at the beginning of the year is \$15,250 and at the end of the year is \$14,000. The net change is -\$1,250. This value is automatically displayed on Line L of the Main Menu.

7. Accrued Interest Change

Beginning of Year		End of Year	
Loan Description	Accrued Interest Value	Loan Description	Accrued Interest Value
State Bank of Corn	15,250	State Bank of Corn	14,000
	-		-
	-		-
	-		-
	-		-
	-		-
Total		Net Change (b-a)	
^a 15,250		^b 14,000	^c (1,250)

Line M Total Adjustments Made for Accrual Liabilities

This is the sum of changes made for accounts payable and accrued interest. The Smith's total adjustments for accrued liabilities equal \$69,750.

Line N Net Farm Profit (or Loss) After Adjusting for Accrued Assets and Accrued Liabilities

This is the "Net Farm Profit (or Loss)" on Line A plus the "Total Adjustments Made for Accrual Assets" on Line I minus "Total Adjustments Made for Accrual Liabilities" on Line M. The adjusted net farm profit (or loss) for John and Sally Smith is \$64,263.

Line O Cost of Livestock Adjustments

Entries represent the value of livestock that has not been reported on Line 2 or Line 16 of the Schedule F. The three entries in this section are not directly related to each other, but assist in adjusting the operation's value of livestock for the current year.

Line P Total Purchased Feeder and Breeding Livestock for the Year

The Smiths spent \$10,000 on feeder and breeding livestock.

Line Q Cost or Other Basis of Livestock

Found on Line 2 of the Schedule F. This value represents the owner's original purchase cost of feeder livestock sold in the current year. The Smiths entered \$25,000.

Line R Livestock Depreciation

Found on Line 16 of the Schedule F. This value represents the portion of Line 16 that is attributable to depreciation claimed on breeding livestock in the current year. The Smiths spent \$1,200.

Line S Total Livestock Adjustments

Adjustments made to the net farm profit (or loss) value that is calculated on the Schedule F. This value is the cost of "Purchased and Feeder Livestock" (Line P) minus the "Cost or Basis of Livestock" (Line Q) minus "Livestock Depreciation" (Line R). John and Sally Smith's total livestock adjustments equal -\$16,200.

Line T *Other Income Adjustments for Commodity Credit Corporation (CCC) and Crop Insurance*

These totals may or may not be included on the Schedule F and depend upon deferred payments. For example, in the current year, income from crop insurance may be deferred until the following tax year, but should be reported for accrual purposes. However, in the following year, income may be listed on the Schedule F because it was deferred from the previous year, but for accrual purposes, it is not included in net profit (or loss).

In our example, John and Sally Smith deferred \$15,000 of 2002 insurance payments until 2003. In 2002, no insurance income is reported on the Schedule F for cash purposes, but \$15,000 of insurance income is reported for accrual purposes. In 2003, the insurance payments are recorded on the Schedule F for cash purposes, but not for accrual purposes because they were reported in 2002. Thus, in this program, John and Sally Smith record a crop insurance adjustment of -\$15,000.

Line U *Accrual Income Approximation*

This value is the net farm profit (or loss) after adding accrual asset and liability adjustments minus total livestock adjustments plus income adjustments for CCC payments and crop insurance. The Smith's approximate value of accrual income is \$65,463.