

Income Statement – A Financial Management Tool

What is an Income Statement?

- A financial statement that measures the profit or loss of a business for a period of time.
- The most common period of time is the calendar year.
- Shows income earned and expenses accrued during the year.
- Income and expenses are reported on an accrual basis.

What is Contained in an Income Statement

Farm Business Receipts
Changes in Inventory Value of Crop, Livestock, and Accrued Income
Farm Cash Operating Expenses
Changes in Inventory Value of Accrued Expense, Production Supply Expense
and Accrued Interest Expense
Depreciation Expense
Gain or Loss on Sale of Farm Capital Assets
Gain or Loss Due on Sale of Breeding Livestock

Income Statement – A Financial Management Tool Example

| | |
|---|---------------------|
| Crop Cash Sales..... | (IA) <u>35,870</u> |
| +Ending Crop Inventory..... | (IB) <u>17,980</u> |
| -Beginning Crop Inventory..... | (IC) <u>37,500</u> |
| Gross Revenues from Crops..... | (1) <u>16,350</u> |
| | |
| Market Livestock Cash Sales..... | (2A) <u>343,100</u> |
| +Ending Market Livestock Inventory..... | (2B) <u>232,650</u> |
| -Beginning Market Livestock Inventory..... | (2C) <u>184,050</u> |
| Gross Revenues from Market Livestock..... | (2) <u>391,700</u> |
| | |
| Gain/Loss from Breeding Livestock Sales and Quantity | |
| Change in Raised Breeding Livestock..... | (3) <u>1,950</u> |
| Agr. Program Payments..... | (4) <u>3,100</u> |
| Crop Insurance Proceeds..... | (5) <u>5,500</u> |
| Other Farm Income..... | (6) <u>2,000</u> |
| Accrued Income Inventory Adjustment..... | (7) <u>500</u> |
| | |
| GROSS REVENUES (Add lines 1 through 7)..... | (8) <u>421,500</u> |
| Less Purchase of Market Livestock..... | (9) <u>124,000</u> |
| Less Cost of Purchased Feed/Grain..... | (10) <u>130,000</u> |
| VALUE OF FARM PRODUCTION (Line 8 – Line 9 – Line 10)..... | (11) <u>167,500</u> |

VFP Income Statement – Farm Business Expenses

| | | |
|--|------|---------|
| Labor Hired..... | (12) | 18,200 |
| Machinery-Building Repairs..... | (13) | 9,400 |
| Seed-Other Crop Expense..... | (14) | 3,100 |
| Fertilizer-Lime..... | (15) | 7,000 |
| Machine Hire-Lease..... | (16) | 2,400 |
| Farm org. Fees, Publications..... | (17) | 1,500 |
| Vet-Medicine-Drugs..... | (18) | 3,900 |
| Livestock Marketing..... | (19) | 4,600 |
| Gasoline-Fuel-Oil..... | (20) | 10,000 |
| Real and Personal Property Taxes..... | (21) | 2,500 |
| General Farm Insurance..... | (22) | 2,200 |
| Cash Farm Rent..... | (23) | 7,800 |
| Utilities..... | (24) | 4,800 |
| Herbicides-Insecticides..... | (25) | 4,000 |
| Conservation..... | (26) | 500 |
| Total Cash Operating Expenses (Add lines 12 through 26)..... | (27) | 81,900 |
| Accrued Expense Inventory Adjustment..... | (28) | (4,000) |
| Production Supply Expense Inventory Adjustment..... | (29) | 3,475 |
| Total Depreciation Expense..... | (30) | 22,425 |
| TOTAL OPERATING EXPENSES (Line 27 + Line 28 + Line 29 + Line 30)..... | (31) | 103,800 |
| Total Accrued Interest Expense..... | (32) | 16,600 |
| TOTAL EXPENSES (Line 31 + Line 32)..... | (33) | 120,400 |
| NET FARM INCOME FROM OPERATIONS (Line 11 – Line 33)..... | (34) | 47,100 |
| Gain/Loss on Sale of Farm Capital Assets..... | (35) | 0 |
| Gain/Loss from Change in the Base Value – for Raised Breeding Livestock..... | (36) | 0 |
| NET FARM INCOME, ACCRUAL ADJUSTED (Line 34 + Line 35 + Line 36)..... | (37) | 47,100 |

Table 2. Example of the Gain or Loss Due to the Sale of Breeding Livestock and the Quantity Change in Raised Breeding Livestock

| | |
|---|---------------|
| + Cash Receipts from Sale of Breeding Livestock (4 purchased, 32 raised)... (1) | <u>5,250</u> |
| - Remaining Basis of Purebred Breeding Livestock Sold (at \$75).....(2) | <u>300</u> |
| - Base Value of Raised Breeding Livestock Sold (at \$100).....(3) | <u>3,200</u> |
| + Ending Base Value of Raised Breeding Livestock (160 head at \$100).....(4) | <u>16,000</u> |
| - Beginning Base Value of Raised Breeding Livestock (158 head at \$100).....(5) | <u>15,800</u> |

GAIN OR LOSS FROM BREEDING LIVESTOCK SALES AND QUANTITY CHANGE IN RAISED BREEDING LIVESTOCK*(6) 1,950

(Line 1 – Line 2 – Line 3 + Line 4 – Line 5)

*Cash receipts from the sale of breeding livestock could be included with market livestock cash sales, and thus not included in the computation of gain or loss

Table 4. Example of the Gain or Loss from Changing the Base Value for Raised Breeding Livestock*

| | |
|--|----------------------|
| + Ending Inventory Value of Raised Breeding Livestock with New Base Value (160 head at \$110)..... | (1) <u>17,600</u> |
| - Ending Inventory Value of Raised Breeding Livestock with Old Base Value (160 head at \$100)..... | (2) <u>16,000</u> |
| GAIN OR LOSS FROM CHANGE IN THE BASE VALUE FOR RAISED BREEDING LIVESTOCK..... | (3) <u>1,600</u> |
| (Line 1 – Line 2) | |

*Not used in example income statement