

Steps to Take IRS Tax Return Conversion to Managerial Financial Statements

The IRS Schedule F “Profit or Loss from Farming” (Schedule F.) reports provide does not provide a measure business profitability nor provide meaningful managerial financial statements for ranchers. That include the **accrual adjusted income statement, balance sheet and statement of cash flow.**

The first step is review financial statements prepared for the ranch business that is similar to the one to be prepared. **Have the final desired financial reports in mind.** Build off of what is currently in place. Be sure the bookkeeper is involved. The tax CPA must be involved the first time these financial statements reporting effort is made.

This is an outline of steps to take to provide managerial financial statements.

1. Start the process to use IRS tax reporting data.
 - a. Organize the fiscal year **IRS Schedule F** report and depreciation schedule.
 - b. Request the **tax CPA** to also provide a “book” depreciation schedule.
 - c. If software is used in accounting like QuickBooksPro™ efforts can be made to insure the chart of accounts follows the Schedule F with the tax reporting needs.

2. Organize all the business **Balance Sheet** data that fit the business.
 - a. List assets – what is owned. Use market values of assets.
 - b. Complete the cattle beginning and ending year inventory.
 - c. Complete the feed beginning and ending inventory.
 - d. Prepare the list of liabilities – what is owed to each lender.
 - e. Describe each loan annual payment and timing of payment.
 - f. Review the cattle production system is it: 1. Cow-calf selling calves at weaning, 2. Cow-Calf weaned calves retained sold precondition in fiscal year born. or 3. Cow-calf weaned calves are retrained and sold as feeders often in the fiscal year after born and weaned?

3. Organize what is named **accrual adjustments** as the Schedule F is a cash report and is a reason the report is not a profit report.
 - a. Accrual income items include accounts receivable, grain or cattle for sale. investment in growing crop and cattle.
 - b. Expense items such as accounts payable, interest and taxes payable.
 - c. Identify subaccounts to meet the production system data needs.

Now that most of the financial data is in order it’s time to record data in Excel™ spreadsheets for the chosen cattle production system. Review titles on data sheets and starts with the IRS Schedule F data. The spreadsheet is used to records all the data will provide financial statement reports and calculates the performance measures by criteria for finance and cattle. The spreadsheet file are names by cattle production and marketing system being evaluated and reports presented.