

User Guide IRS Schedule F to Financial Statements Reporting

The products of these financial reporting efforts are to go **beyond the IRS Schedule F** tax cash return data used for IRS compliance reporting. It is likely more than 95% of ranches/farmers file the Schedule F for compliance that does not calculate business profitability, financial position or performance. Provided is a guide to setup QuickBooksPro™ is provided decision aids data.

The Excel™ spreadsheets that report accrual adjusted financial statements provide the statement of cash flow, income statement and balance sheet. Accrual adjusted reports provide the data to report financial criteria including liquidity, solvency, profitability, repayment capacity and financial efficiency. Financial position and performance measures are calculated and reported for each criterion that follows the Farm Financial Standards Council (FFSC) guidelines.

This spreadsheet accommodates the situation where there is not production data available to calculate production measure or where the FFSC measures meet the reporting current needs.

Spreadsheet Supporting Annual Financial Performance Reporting

Annual Accrual Adjusted Financial Statements and with FFSC Performance Values.

Supporting Spreadsheets Provided for the Annual Financial Statements

See section 2 of L that Data Generation Spreadsheets Including

- Data Records for the Capital Assets Depreciation Schedule
- Replace IRS Depreciation with Capital Asset Calculated Replacement Cost
- Loan Description, Balance Sheet, Cash Flow and Repayment

If adequate data is available by commodity production benchmark information is very valuable for management and marketing decision making.

Completing the business financial statements also requires including family living expenses/withdrawals to complete the statement of cash flows and to calculate repayment capacity.

QuickBooks Pro™ and Family Living Expense/Withdrawals Reports

Family living expenses/withdrawals are combined with the business cash flow for the **statement of cash flow** report to calculate the business repayment capacity.

Always include the **business CPA** in setting up and implementing this financial statement development and reporting implementation effort that is built on the completing the IRS Schedule F. A glossary of terms follow.

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Balance Sheet Glossary of Select Financial Terms

Balance Sheet

Balance Sheet is a financial statement that shows the financial conditions of the business at a particular point in time. It is a list of assets and liabilities (what the business owes) and equity (what the owner owns).

Equity is the difference between total assets and total liabilities. This gives an indication of the dollar amount actually owned by the operator, and represents the capital base available to handle adversity.

Equity to Asset Ratio or Percent Equity (%) is a **solvency** measure that is calculated by dividing total equity by total assets. It measures the proportion of assets financed by the owner's equity capital. In other words, it is the owner's claim against the assets of the business.

The higher the equity to asset or percent equity ratio means that more total capital has been supplied by the owner(s) and less by the creditors.

Liabilities to Asset Ratio shows what portion of total business assets is owned by creditors.

Equity to asset as a percent shows the portion of total farm/ranch assets contributed by the owner's equity. Also called percent ownership.

Income Statement

Measuring ranch profitability requires accrual adjustments **to match revenue with expenses during the fiscal year**. Ranch revenue is recorded **when earned and expenses are recorded when incurred**.

This is in contrast to the **IRS cash basis of accounting** where revenue is recorded only when cash is received, and expenses are recorded when cash is paid. When using cash accounting no attempt is made to match revenue against expenses. However, this IRS compliant cash data is a big part of developing useful accrual adjusted income statement and the statement of cash flow.

Net Accrual Income or **profit** is the revenue earned minus the expenses incurred during the operating year including the interest expense without regard to the exchange of cash. Net income is calculated after accounting for family living expenses/withdrawals (owner labor and management) and reflects the enterprise contribution to total farm or ranch income. For operations that pay salary and wages, this cost is included in operating costs. This is a pre-tax net income and is not equal to IRS taxable income. **Profit** is after income and self-employment tax is paid. This is also business **equity growth**.

Net Cash Flow from Operations is the amount of cash that is available after cash operating expenses are subtracted from cash operating income.

Income Statement or Profit or Loss (P&L) is an accrual-adjusted statement that is a summary of revenue and expenses for a defined period of time for the total business.

Profitability is the ability of the business to generate income in excess of expenses. It is expressed as the net returns to resources used in production. Profitability is necessary to sustain a production business – farm or ranch.

Statement of Cash Flows

Statement of Cash Flows is a financial statement that provides a summary of the business' cash effects of producers operating, investing and financing activities. All cash movements in and out are summarized. This statement is particularly valuable in reconciling the cash movements in the business.

References:

Farm Financial Standards Task Force FFSC. “*Recommendations of the Farm Financial Standards Task Force: Financial Guidelines for Agricultural Producers*”. Revised 2022, Farm Financial Standards Council, website www.FFSC.org.

Texas A&M University – Department of Agricultural Economics Decision Aids Beef
<http://agecoext.tamu.edu/resources/decisionaids/beef>

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