

Grain Farm Suggest Steps to Follow to Prepare Financial Statements

1. Decision aids help producer and book keeper help moving beyond the completed IRS Schedule F cash reporting to generate accrual adjusted financial statements and measures following the Farm Financial Statements Council (FFSC) guidelines. Also, must have **the farm's CPA involvement.**
2. Using accounting software like QuickBooksPro™ is beneficial for annual financial closeout implementation.
3. Use the decision aid **Schedule F to Accrual Adjusted Financial Statements** decision aid to enter the latest completed Schedule F report.
4. Address the need for data required beyond the Schedule F. and depreciation schedule shown in the decision aid including the following needs:
 - a. Record accrual adjustment data – sheet 3. This can be a big task.
 - b. If “book depreciation” is not available use sheet 4. to calculate capital asset replacement cost depreciation.
5. Complete the accrual adjusted **Income Statement**
6. Complete the market valued **Balance Sheet**
 - a. Producers and bookkeeper have most of this data.
 - b. The depreciation schedule is a source for owned capital assets.
 - c. Bank and lender's data should be available to address liabilities and payment data. Use the names the decision to fit the producer.
7. Complete to **Statement of Cash Flows**
 - a. This task draws on the other cash data sources.
 - b. Addition of family living expenses/withdrawals – likely an estimate!
 - c. Family Living Expenses/Withdrawals may motivate participation.
8. Calculating **total unit cost** of production by crop is valuable for management.

Once the accrual financial statements are completed the **total unit cost** (TUC) can be calculated in the spreadsheets using the allocation sheets.

Total unit cost is the term used as many “**breakeven**” costs are published that truly inclusive of the total costs. Many only include direct costs or variable costs of production.

Costs are organized in by crop the following order.

- a) Direct Costs
 - b) Indirect Costs – Including Finance
- Total Cost or Total Unit Cost (TUC)**

Direct Costs are cost of items that are directly related to level of the production activity chemicals, fertilizer and seed. As acres increase these cost increase.

Indirect Costs are the costs ownership and operating cost. Depreciation or capital asset recovery, repair, maintenance, of the vehicles, machinery and equipment, labor and management, utilities, property tax are examples of operating costs. **General and administrative costs** are (G&A) indirect cost that all business incurs to cover book keeping, professional fees, insurance, office supplies, computer services, phone and other utilities cost. Administrative cost includes the salary and payroll for hired of owner management.

To facilitate TUC calculation of the accrual, adjust financial statement **interest or finance costs** are included in indirect costs.

Owner Operator Labor and Management compensation should be included in the production cost calculation at a level equivalent to the salary required to hire a non-family member to provide an equivalent service. Compensation in excess of this amount must be considered capital distributions in order to reconcile the retained earnings and statement of cash flows. This makes a sole proprietor's cost comparable to a corporate business's calculation. Owner manager costs needs to be included in production costs.

Total Unit Cost of Production (TUC) is the total cost of production includes direct, indirect and finance costs. This cost can be compared to net crop price to evaluate the competitiveness of the enterprise. At this price, total enterprise revenue is exactly equal to total enterprise costs, which **results in zero net income.**

A business with has no equity growth or profit when only covering TUC.

Completing the crop production and allocation decision will be easy for producers and their book keeper. Production is for the crop year. Using the accrual adjustments sheet can assist in matching income like grain for sale in storage and investment in growing crop. Subaccounts by crop facilitate recording direct costs by each crop.

Allocation of indirect cost on a per acre is adequate for most farms after direct costs allocation.

Reference:

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

Grain Farm IRS Schedule F - Accrual Adjusted Financial Statements

Reporting FFSC Financial Performance Measurement by Criteria Farm Financial Standards Council (FFSC)

Crop Production Results, Total Unit Costs and Net Accrual Income

List of Schedule F and Other Data Sheets and Financial Reports



Data from the IRS Schedule F or QuickBooksPro™

- 1. Schedule F. Part I Farm Income - Cash Method**
Includes data to assist calculations of cash sales by crop.
- 2. Schedule F. Part II Farm Expense - Cash Method**
Cash expense data.
Data for depreciation Schedule F and capital gains adjustments.
- 3. Accrual Adjustment Data**
Added income and expense data, depreciation and capital gains adjustments.
- 4. Replacement Cost Calculator for Farm Capital Assets**
Replacement cost is as an alternative to IRS tax calculated depreciation.
Includes vehicles, machinery, equipment and improvements.
- 5. Accrual Adjusted Income Statement**
Cash to accrual adjusted statement report.
- 6. Market Valued Balance Sheet**
Calculation of balance sheet ratios. Data not in Schedule F.
- 7. Statement of Cash Flow and Repayment Capacity**
Replacement capacity data and calculation. Data not in Schedule F
Data to calculate debt coverage and repayment capacity.
- 8. FFSC Criteria and Performance Measurement Report**
- 9. Graph of Financial Efficiency Ratios**
- 10. Indirect and Direct Cost Financial Summary for Crop Report**
- 11. Allocation of Accrual Adjusted Income and Costs by Crop**
- 12. Total Unit Cost (TUC) and Net Income by Crop Report**
Beyond the typical published incomplete "breakeven cost".
- 13. Key Definitions**