Farm Financial Management

Income Statement Analysis

Guidelines and Resource Materials
For Educational Meetings

by

Allan E. Lines
Extension Economist
Farm Management

Department of Agricultural Economics and Rural Sociology
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FARMERS AND LENDERS HAVE HISTORICALLY RELIED UPON OBSERVATION AND PHYSICAL MEASURES FOR THEIR ANALYSIS OF BUSINESS PERFORMANCE
NET FARM INCOME IS THE SINGLE MOST IMPORTANT MEASURE OF PERFORMANCE FOR A FARM BUSINESS
ISSUES: WHAT IS REVENUE?
WHAT ARE EXPENSES?
WHAT TIME PERIOD?
CASH OR ACCRUAL BASIS?
REVENUE
- EXPENSES
NET INCOME
NET AFTER TAX INCOME PLUS DEPRECIATION

- RETAINED EARNINGS
  - NON-FARM
    - PAY OFF PRINCIPAL ON CAPITAL DEBTS
  - FARM
    - PAY ON PURCHASES OF NEW ASSETS
- CONSUMPTION
WHAT MUST BE PAID FROM NET INCOME?
CAPITAL
GAIN($) or LOSS($) 
ON 
ASSETS SOLD
DEPRECIATION
OPERATING
ITEMS INCLUDED IN EXPENSES
HIDDEN INCOME
CASH ACCOUNTING PROVIDES FOR

1981 EXPENSES

OR

1982 TAX FLEXIBILITY

RECEIPTS
AN ACCRUAL ANALYSIS IS REQUIRED TO APPROPRIATELY MEASURE BUSINESS PERFORMANCE
ACCOUNTING PERIOD

EASY TO MEASURE OVER LIFE

NEED: "DETERMINE HOW THINGS ARE GOING"

CALENDAR YEAR MOST COMMON

ANALYSIS YEAR SHOULD COINCIDE WITH TAX YEAR

— CASH DATA CAN BE ADJUSTED TO MEANINGFUL ACCRUAL DATA
ENTITY

THREE OPTIONS:
- FARM BUSINESS ALONE
- INDIVIDUAL ALONE
- COMBINATION

CONSOLIDATED MOST COMMON

DESIRABLE TO HAVE SEPARATE
ACCRUAL CONCEPT

ESSENCE: OPERATING TRANSACTIONS THAT AFFECT OWNER EQUITY

REVENUES ↑ EQUITY
EXPENSES ↓ EQUITY

EXPENSE EXPENDITURE → NOT SYNONYMS
CRITICAL DIFFERENCE
USE VS. OUTLAY

INVENTORY CHANGES ARE CRUCIAL

ACCRUED EXPENSES ARE CRUCIAL
REALIZATION CONCEPT

CRUCIAL TO MATCH EXPENSES AND REVENUE FOR ACCOUNTING PERIOD

REVENUE REALIZED ON ACCRUAL BASIS

EXAMPLE: CROP VALUE
— CASH EXPENSES RECOGNIZED
— TOTAL REVENUE: IN INVENTORY

LIVESTOCK
— VALUE IN INVENTORY

EXPENSE RECOGNIZED

AT TIME OF SERVICE
OBLIGATION BY CONTRACT
ACCEPTANCE OF PRODUCT

EXPENSES ADJUSTED FOR
UNUSED ASSETS
UNPAID ITEMS
CONSISTENCY PRINCIPLE

SAME FROM ONE YEAR TO NEXT

CONCEPTS
PRINCIPLES
MEASUREMENT

OBJECTIVE: COMPARABLE DATA OVER TIME