

## Entering Accrual Numbers to Convert Cash Statements

The majority of farms still report their incomes and expenses on a cash basis via their annual income tax returns and very few actually have an accurate Accrual statement prepared to give them a true picture of profitability.

With the right information ABA has the capability of converting those cash statements to accrual.

Items that will affect the calculations are year end numbers for inventories of livestock, crops for sale, feed on hand, purchased supplies, accounts receivable, accounts payable and accrued interest. Most farmers will have these numbers available either from the year-end statement that they provide to their banker or accountant or from their annual AgriStability returns. The only number that may not be readily available is the Accrued Interest at year-end, so that number may have to be estimated.

If year-end statements are available, simply put the numbers in the historical columns on the Net Worth page and NW SUM page and ABA will carry them through to the Income, Expense and Debt Servicing Summary (DS SUM) page. You can also enter the information on the bottom of the DS Sum page in the “Accrual Adjustments Amounts”. Details are not necessarily required in this section but the program gives enough space to include them. You must have the required numbers for the beginning of the year and end of the year for the accrual adjustments to be calculated properly for any given year.

Once the information has been entered be sure to place a “Y” in the top row on the Income, Expense and Debt Servicing Summary. This will initiate the inclusion of the accrual adjustments into the income statement.

| Income, Expense and Debt Servicing Summary: |           |         |           |           |           |           |           |
|---|-----------|---------|-----------|-----------|-----------|-----------|-----------|
| Do you want to do accrual adjustments?      | Y         | Y       | Y         | Y         | Y         | Y         | Y         |
| Year End Dates:                             | 31-Dec-15 | Average | 31-Dec-14 | 31-Dec-13 | 31-Dec-12 | 31-Dec-11 | 31-Dec-10 |

Accrual adjustments do not need to be made in the projections as ABA has the information to do that automatically.

You won't likely have depreciation numbers for previous years. Income tax returns may have CCA numbers, but those can be quite different from the depreciation estimates from market value as done in the projections. For the historical Accrued Net Farm Income numbers to be meaningful, depreciation amounts should be entered into the numbers for the past years as well. Something that some users do is just use the same depreciation amounts as in the projections. Another option is to estimate what the amounts would be, based on assets that were known to be in place in those years.

**A note of caution for some of the entries.** A change in value for an inventory item can have a dramatic effect in calculating the accrual adjustments. As an example if you have 500 cows with a value of \$1,000 each on Dec 31, 2012 and then with the rising livestock prices the value is increased to \$1,500 each at the end of 2013, there would be an accrued gain due to inventory valuation increase of \$250,000. Conversely if the value of those cows was \$1,500 at the end of

2013 and were valued back at \$1,200 each at the end of 2014 for whatever reason, the adjustment would show a loss of \$150,000 due strictly to the drop in value. This issue is most prevalent when valuing the breeding stock. Although this could easily be the real case, the farmer who just carried on with no other changes would show large fluctuations in accrued income due only to this adjustment. If a historical review is being done, it might be more meaningful to record the per unit value of breeding stock the same each year so as not to adversely affect the accrued income calculation. The income would still include an appropriate adjustment for a change in numbers of breeding stock. This may also be applicable to other inventories such as feeds or grains but normally has less of an effect. If you do not have the actual market values of the commodities you can record an average value each year for the specific commodity and then again, the accrual adjustment will only be affected by the volume of product.