

Agricultural Accounting

3rd Edition

Steven M. Bragg

Table of Contents

Chapter 1 – Introduction to Agricultural Accounting.....	1
Learning Objectives	1
Introduction	1
A Note on Terminology.....	1
The Economic Entity Concept	1
Financial Statements.....	2
Format of the Financial Statements	2
Income Statement	3
Statement of Owner's Equity.....	4
Balance Sheet.....	5
Statement of Cash Flows.....	6
Financial Statement Disclosures	7
Construction of Financial Statements	7
Additional Commentary on the Financial Statements	8
Profits vs. Cash Flows.....	8
Accounting Principles	9
The Certified Public Accountant	10
Accounting Standard-Setting Organizations	10
Financial Accounting and Managerial Accounting	11
Chapter Summary.....	11
Review Questions	12
Review Answers	13
Chapter 2 – Accrual and Cash Basis Accounting.....	15
Learning Objectives	15
Introduction	15
Cash Basis of Accounting	15
Accrual Basis of Accounting	15
Accrual-Adjusted Approach	16
Converting Cash Basis to Accrual Basis Accounting.....	17
Chapter Summary.....	17
Review Questions	18
Review Answers	19
Chapter 3 – Accounts.....	21
Learning Objectives	21
Introduction	21
Transactions	21
Accounts.....	21
The Chart of Accounts.....	23
Account Descriptions	25
Double Entry Accounting.....	28
The Accounting Equation	29
Journal Entries	30
The Trial Balance.....	31
Chapter Summary.....	32
Review Questions	33
Review Answers	34
Chapter 4 – Accounting Transactions.....	35
Learning Objectives	35
Introduction	35
Financing Activities	35
Owner Investments.....	35
Associated Liabilities	36
Owner Withdrawals	36

Table of Contents

Loans	37
Investing Activities	37
Asset Acquisitions	37
Asset Sales	38
Asset Exchanges	38
Asset Leases	39
Investments in Perennial Crops	41
Operating Activities	42
Purchases of Market Livestock and Crops	42
Annual Costs for Producing Perennial Crops	42
Feed Purchases	42
Supplies Purchases	43
Billed Expenditures	43
Prepaid Expenses	43
Payroll	44
Taxes	45
Sale of Farm Products	45
Receipt of Payment from Customers	46
Crop Insurance Proceeds	46
Chapter Summary	47
Review Questions	48
Review Answers	49
Chapter 5 – Receivables Accounting.....	51
Learning Objectives	51
Introduction	51
The Billing Process	51
The Invoice	51
Cash Sales	52
The Accounts Receivable Aging Report	54
Estimation of the Allowance for Doubtful Accounts	54
Accounting for the Allowance for Doubtful Accounts	55
The Direct Write-off Method	56
Negative Bad Debt Expense	56
Chapter Summary	57
Review Questions	58
Review Answers	59
Chapter 6 – Investment Accounting	61
Learning Objectives	61
Introduction	61
Types of Investments	61
Investment Classifications	61
The Realized and Unrealized Gain or Loss	63
Other Comprehensive Income	64
Purchase and Sale of Investments	64
The Gain or Loss Calculation	65
Conversion of Securities	65
Sale of Securities	66
Accounting for Dividends and Interest Income	66
Stock Dividends and Stock Splits	66
Ongoing Accounting for Investments	67
The Fair Value Option	68
Chapter Summary	68
Review Questions	69
Review Answers	70
Chapter 7 – Inventory Accounting	71
Learning Objectives	71
Introduction	71

Table of Contents

Accounting for Inventory – At Period-end.....	71
Summary of Inventory Valuation Rules.....	73
Accounting for Inventory – Feed.....	75
Purchase of Feed for Internal Use	75
Purchase of Feed for Resale	76
Raised Feed for Internal Use	77
Accounting for Inventory – Crops	77
Purchase of Crops for Resale	77
Growing Crops	78
Raised Crops for Sale.....	78
Accounting for Inventory – Livestock	79
Purchase of Market Livestock for Resale	79
Raised Market Livestock for Sale.....	79
Livestock Products	80
Inventory Co-Mingling	80
Chapter Summary.....	81
Review Questions	82
Review Answers	83
Chapter 8 – Fixed Assets and Depreciation	85
Learning Objectives	85
Introduction	85
The Nature of Fixed Assets.....	85
The Initial Measurement of a Fixed Asset.....	86
Lump-Sum Purchases.....	87
The Purpose of Depreciation	87
Depreciation Concepts	88
Accelerated Depreciation	88
Sum-of-the-Years' Digits Method	89
Double-Declining Balance Method	90
Straight-Line Method.....	90
Units of Activity Method.....	91
MACRS Depreciation	91
The Depreciation of Land	93
The Depreciation of Land Improvements	93
Depreciation Accounting Entries.....	93
Accumulated Depreciation.....	94
Asset Disposal Accounting	95
Impairment Write-downs	96
Chapter Summary.....	96
Review Questions	97
Review Answers	98
Chapter 9 – Noncurrent Farm Assets	99
Learning Objectives	99
Introduction.....	99
Land Development Costs	99
Trees and Vines.....	99
Intermediate-Life Plants	100
Valuation of Raised Breeding Livestock.....	100
Special Poultry Considerations	101
Animal Cost Tracking.....	101
Base Value Method	101
Noncurrent Investments	102
Chapter Summary.....	103
Review Questions	104
Review Answers	105
Chapter 10 – Payables Accounting.....	107
Learning Objectives	107

Table of Contents

Introduction	107
Accounting for Accounts Payable	107
Early Payment Discounts	109
The Vendor Master File.....	110
Vendor Master File Usage.....	111
Supplier Naming Conventions	111
The Payables Filing System	112
Government Reporting	113
The Form 1099-MISC.....	113
The Form W-9	115
Chapter Summary.....	116
Review Questions	117
Review Answers	118
Chapter 11 – Debt Accounting.....	119
Learning Objectives	119
Introduction	119
Basic Debt Accounting	119
The Amortization Schedule	121
Reconciling the Debt Account	121
Chapter Summary.....	122
Review Questions	123
Review Answers	124
Chapter 12 – Income Taxes.....	125
Learning Objectives	125
Introduction	125
Overview of Income Taxes.....	125
Accounting for Income Taxes.....	126
Tax Positions.....	127
Deferred Tax Expense.....	128
Applicable Tax Rate	128
Interim Reporting	128
Chapter Summary.....	129
Review Questions	130
Review Answers	131
Chapter 13 – Derivatives and Hedging Transactions.....	133
Learning Objectives	133
Introduction	133
The Nature of a Derivative.....	133
The Nature of a Hedge.....	134
Other Comprehensive Income.....	134
Derivative Accounting	135
Hedge Accounting – General	135
Hedge Accounting – Fair Value Hedges	136
Hedge Accounting – Cash Flow Hedges	137
Chapter Summary.....	137
Review Questions	139
Review Answers	140
Chapter 14 – Cooperative Accounting.....	141
Learning Objectives	141
Introduction	141
Cooperative Accounting	141
Inventory Accounting	141
Earnings Allocations	143
Loss Allocations	143
Liabilities	143
Presentation Issues.....	143

Table of Contents

Patron Accounting.....	144
Deliveries Made to Marketing Cooperatives	144
Inventory Delivered to a Marketing Cooperative.....	144
Advances from a Marketing Cooperative.....	144
Accrual of Patronage Refunds	144
Chapter Summary.....	145
Review Questions	146
Review Answers	147
Chapter 15 – Revenue Recognition	149
Learning Objectives	149
Introduction	149
Effects of Inventory Valuation Using Net Realizable Value	149
Government Programs	149
Sales to Cooperatives	149
Commodity Credit Corporation Loans.....	150
Forward Contracts	150
Chapter Summary.....	151
Review Questions	152
Review Answers	153
Chapter 16 – Financial Statement Preparation.....	155
Learning Objectives	155
Introduction	155
The Accruals Concept.....	155
Adjusting Entries	155
Reversing Entries.....	156
Common Adjusting Entries	157
Accrued Expenses.....	157
Accrued Revenue	157
Allowance for Doubtful Accounts.....	157
Prepaid Expenses	158
Unpaid Taxes	158
Create Customer Invoices	158
Reconcile the Bank Statement	159
Calculate Depreciation	160
Close Accounts Payable	160
Review Journal Entries.....	161
Reconcile Accounts.....	162
Close Subsidiary Ledgers	163
Review Financial Statements	163
Accrue Tax Liabilities	163
Close the Month.....	164
Add Disclosures	165
Issue Financial Statements	165
Chapter Summary.....	165
Review Questions	166
Review Answers	167
Chapter 17 – Financial Statement Disclosures	169
Learning Objectives	169
Introduction	169
Disclosure of Accounting Policies	169
Basis of Accounting	169
Nature of Operations	169
Use of Estimates	170
Basis of Combination.....	170
Cash and Cash Equivalents.....	170
Trade Accounts and Other Receivables	170
Basis of Inventory Valuation.....	171

Table of Contents

Revenue Recognition	171
Income Taxes.....	171
Commitments	171
Disclosure of Inventory.....	171
Disclosure of Raised Dairy and Breeding Livestock.....	171
Disclosure of Fixed Assets	172
Disclosure of Deferred Income Taxes.....	172
Balance Sheet.....	172
Income Statement	173
Disclosure of Short-Term Notes Payable.....	173
Disclosure of Long-Term Debt.....	174
Disclosure of Pension Plans.....	174
Disclosure of Investments in Cooperatives	174
Disclosure of Dealings with Cooperatives	175
Chapter Summary.....	175
Review Questions	176
Review Answers	177
Chapter 18 – Farm Financial Analysis.....	179
Learning Objectives	179
Introduction	179
Horizontal Analysis.....	179
Financial Ratio Analysis	180
Performance Ratios	180
Net Profit Ratio	180
Operating Income Ratio.....	181
Quality of Earnings Ratio	182
Breakeven Point	183
Efficiency Ratios	183
Asset Turnover Ratio.....	183
Working Capital Turnover	184
Liquidity Ratios	184
Current Ratio	184
Cash Ratio	185
Debt to Equity Ratio.....	186
Debt Service Coverage Ratio.....	186
Capital Debt Repayment Capacity	187
Return on Investment Ratios	187
Return on Equity.....	187
Return on Assets	189
Net Farm Income	190
EBITDA.....	190
Livestock Analysis Formulas	191
Chapter Summary.....	191
Review Questions	192
Review Answers	193
Chapter 19 – The Farmer’s Tax Guide	195
Learning Objectives	195
Introduction	195
Major Sections of the Farmer’s Tax Guide	195
Chapter Summary.....	196
Review Questions	197
Review Answers	198
Glossary.....	199
Index	207