

Agricultural Accounting

2nd 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

Table of Contents

Owner Withdrawals	36
Loans	37
Investing Activities	37
Asset Acquisitions	37
Asset Sales	38
Asset Exchanges	39
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	65
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

Table of Contents

Chapter 7 – Inventory Accounting	71
Learning Objectives	71
Introduction.....	71
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 Commingling.....	80
Chapter Summary.....	82
Review Questions	83
Review Answers	84
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	89
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.....	94
Accumulated Depreciation.....	95
Asset Disposal Accounting.....	95
Impairment Write-downs	96
Chapter Summary.....	97
Review Questions	98
Review Answers	99
Chapter 9 – Noncurrent Farm Assets	101
Learning Objectives	101
Introduction.....	101
Land Development Costs.....	101
Trees and Vines.....	101
Intermediate-Life Plants	102
Valuation of Raised Breeding Livestock.....	102
Special Poultry Considerations	103
Animal Cost Tracking.....	103
Base Value Method	103
Noncurrent Investments	104
Chapter Summary.....	105

Table of Contents

Review Questions	106
Review Answers	107
Chapter 10 – Payables Accounting.....	109
Learning Objectives	109
Introduction.....	109
Accounting for Accounts Payable	109
Early Payment Discounts	111
The Vendor Master File.....	112
Vendor Master File Usage.....	113
Supplier Naming Conventions.....	113
The Payables Filing System.....	114
Government Reporting.....	115
The Form 1099-MISC.....	115
Treatment of Incorrect Filings	117
The Form W-9	118
Chapter Summary.....	119
Review Questions	120
Review Answers	121
Chapter 11 – Debt Accounting.....	123
Learning Objectives	123
Introduction.....	123
Basic Debt Accounting.....	123
The Amortization Schedule	125
Reconciling the Debt Account	125
Chapter Summary.....	126
Review Questions	127
Review Answers	128
Chapter 12 – Income Taxes.....	129
Learning Objectives	129
Introduction.....	129
Overview of Income Taxes.....	129
Accounting for Income Taxes.....	130
Tax Positions.....	131
Deferred Tax Expense.....	132
Applicable Tax Rate	132
Interim Reporting	132
Chapter Summary.....	133
Review Questions	135
Review Answers	136
Chapter 13 – Derivatives and Hedging Transactions.....	137
Learning Objectives	137
Introduction.....	137
The Nature of a Derivative.....	137
The Nature of a Hedge.....	138
Other Comprehensive Income.....	138
Derivative Accounting	139
Hedge Accounting – General	139
Hedge Accounting – Fair Value Hedges	141
Hedge Accounting – Cash Flow Hedges	141
Chapter Summary.....	142
Review Questions	143
Review Answers	144
Chapter 14 – Cooperative Accounting.....	145
Learning Objectives	145
Introduction.....	145

Table of Contents

Cooperative Accounting	145
Inventory Accounting	145
Earnings Allocations	147
Loss Allocations	147
Liabilities	147
Presentation Issues	148
Patron Accounting.....	148
Deliveries Made to Marketing Cooperatives	148
Inventory Delivered to a Marketing Cooperative.....	148
Advances from a Marketing Cooperative.....	148
Accrual of Patronage Refunds	148
Chapter Summary	149
Review Questions	150
Review Answers	151
Chapter 15 – Revenue Recognition	153
Learning Objectives	153
Introduction.....	153
Effects of Inventory Valuation using Net Realizable Value	153
Government Programs.....	153
Sales to Cooperatives	153
Commodity Credit Corporation Loans.....	154
Forward Contracts	154
Chapter Summary.....	155
Review Questions	156
Review Answers	157
Chapter 16 – Financial Statement Preparation.....	159
Learning Objectives	159
Introduction.....	159
The Accruals Concept.....	159
Adjusting Entries.....	160
Common Adjusting Entries.....	161
Accrued Expenses.....	161
Accrued Revenue	161
Allowance for Doubtful Accounts.....	162
Prepaid Expenses	162
Unpaid Taxes	162
Create Customer Invoices.....	162
Reconcile the Bank Statement	163
Calculate Depreciation	164
Close Accounts Payable	165
Review Journal Entries.....	166
Reconcile Accounts.....	166
Close Subsidiary Ledgers	167
Review Financial Statements	167
Accrue Tax Liabilities	168
Close the Month.....	168
Add Disclosures	169
Issue Financial Statements	169
Chapter Summary.....	169
Review Questions	171
Review Answers	172
Chapter 17 – Financial Statement Disclosures	173
Learning Objectives	173
Introduction.....	173
Disclosure of Accounting Policies.....	173
Basis of Accounting.....	173

Table of Contents

Nature of Operations	174
Use of Estimates	174
Basis of Combination.....	174
Cash and Cash Equivalents.....	174
Trade Accounts and Other Receivables.....	174
Basis of Inventory Valuation.....	175
Revenue Recognition	175
Income Taxes.....	175
Commitments	175
Disclosure of Inventory.....	175
Disclosure of Raised Dairy and Breeding Livestock	176
Disclosure of Fixed Assets	176
Disclosure of Deferred Income Taxes.....	176
Balance Sheet.....	176
Income Statement	177
Disclosure of Short Term Notes Payable	178
Disclosure of Long-Term Debt.....	178
Disclosure of Pension Plans.....	178
Disclosure of Investments in Cooperatives	178
Disclosure of Dealings with Cooperatives	179
Chapter Summary	179
Review Questions	180
Review Answers	181
Chapter 18 – Farm Financial Analysis	183
Learning Objectives	183
Introduction.....	183
Horizontal Analysis.....	183
Financial Ratio Analysis	184
Performance Ratios	185
Net Profit Ratio	185
Operating Income Ratio.....	185
Quality of Earnings Ratio	186
Breakeven Point.....	187
Efficiency Ratios	187
Asset Turnover Ratio.....	188
Working Capital Turnover	188
Liquidity Ratios	189
Current Ratio.....	189
Cash Ratio	189
Debt to Equity Ratio.....	190
Debt Service Coverage Ratio.....	191
Capital Debt Repayment Capacity	191
Return on Investment Ratios.....	192
Return on Equity.....	192
Return on Assets	193
Net Farm Income	194
EBITDA.....	195
Livestock Analysis Formulas	195
Chapter Summary	195
Review Questions	196
Review Answers	197
Glossary.....	199
Index	207