



Financial Analysis of Agricultural Firms



A student once summarized the importance of accounting and farm business analysis.

“The best year my dad ever had was when he was laid up with a leg injury. He couldn’t do much work on the farm and was forced to spend his time in analyzing the farm business and managing it.”



GAAP

G _____ A _____ A _____
P _____

- Not a precise, well-defined set of rules, concepts or procedures.
- Some accounting standards vary from one industry to another.



FFSTF

Farm Financial Standards Task Force

“The consensus of the FFSTF is that farm financial reporting should have, as an overriding goal, an evolution toward consistency with GAAP...”



What Financial Statements Do We Use?

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Use of Financial Statements

Where/how do you use information from financial statements?

- To make important financing and investment decisions
- To substantiate credit applications
- To derive performance measures for analyzing the business
- To develop budgets for planning purposes



Accounting Period

- Time span between preparation of basic financial statements.
- Calendar year:
- Fiscal year:



Accounting Methods

- Two basis accounting methods are available to keep financial records
 - _____ Method
 - _____ Method



Cash Method

- Company reports revenues and expense for the accounting period that cash actually changes hands
- The only non-cash items included are depreciation and value of farm-raised products used in the home
- The cash method accurately reflects profit over the long-run



Accrual Method

- Company records revenues when actually earned and expenses when actually incurred
- Changes in inventory values are considered
- Better than cash method for management purposes and gives a true measure of net income for the accounting period



Choosing Cash vs. Accrual

- IRS requires accrual for (1) corporations (other than a family corporation) that had gross receipts of more than \$1,000,000 for any tax year beginning after 1975, (2) a family corporation that had gross receipts of more than \$25,000,000 for any tax year beginning after 1985, (3) a partnership with a corporation as a partner, and (4) a tax shelter.
- Others can choose
- Accrual is better for management decision making
- Cash may provide more flexibility for tax purposes
