



The Income Statement

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Financial Statements

1. Balance Sheet
2. Statement of Cash Flows
3. Income Statement
4. Statement of Owner Equity

Elements of Financial Statements

REVENUES

ASSETS

EXPENSES

LIABILITIES

**OWNER'S
EQUITY**



What is an Income Statement?

- An Income Statement:
 - Lists all sources of farm revenues
 - Describes the nature of farm expenses
 - Calculates *Net Farm Income*
- Multiple income statements can allow a farm manager to compare profitability to previous years and similar farm operations
- Also referred to as a *Profit and Loss Statement*



Cash vs. Accrual- Based Accounting

INCOME STATEMENTS CAN BE
PREPARED BASED ON EITHER
ACCOUNTING METHODS



Cash Accounting:

Measures income and
expense items when the
cash changes hands

Accrual Accounting:

Matches the revenues from
the period's production to
the actual expenses
associated with generating
that revenue



Cash vs. Accrual- Based Accounting

INCOME STATEMENTS CAN BE
PREPARED BASED ON EITHER
ACCOUNTING METHODS

The Internal Revenue Service (IRS) allows agricultural businesses to file taxes using cash-based information

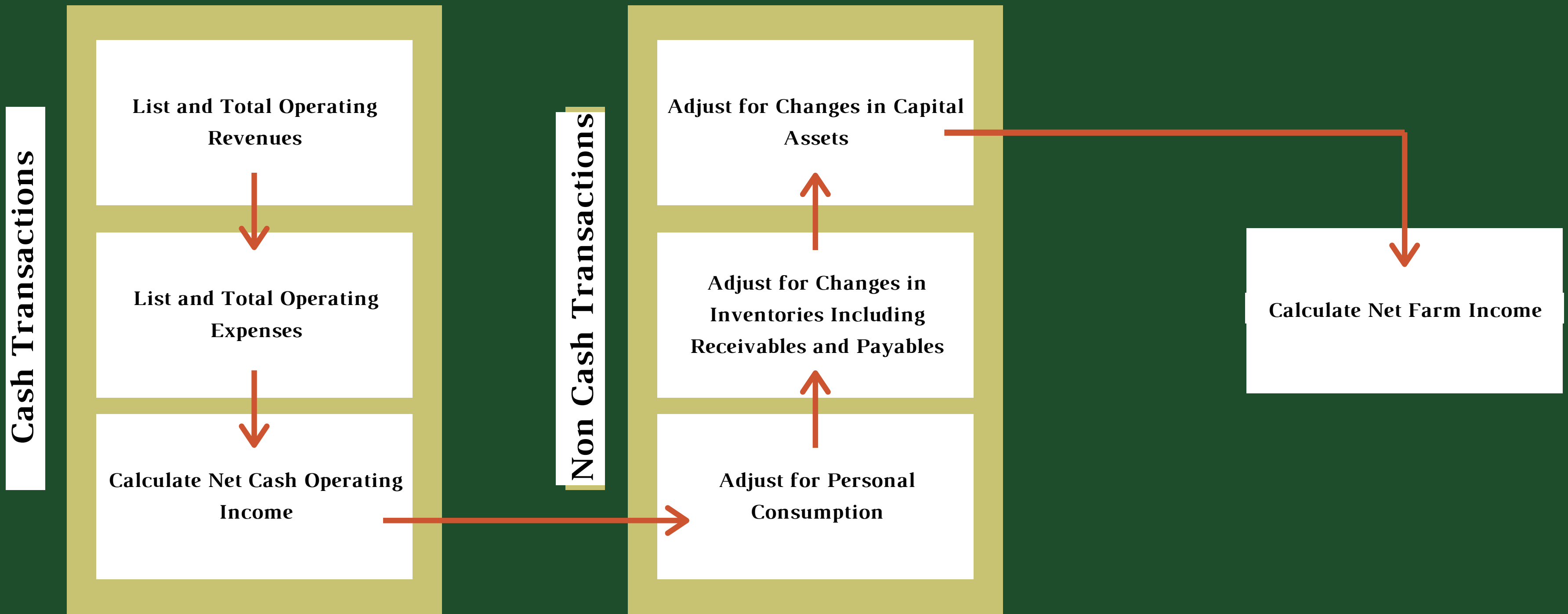
Cash accounting allows more flexibility that may reduce or increase a business's liability for a particular year



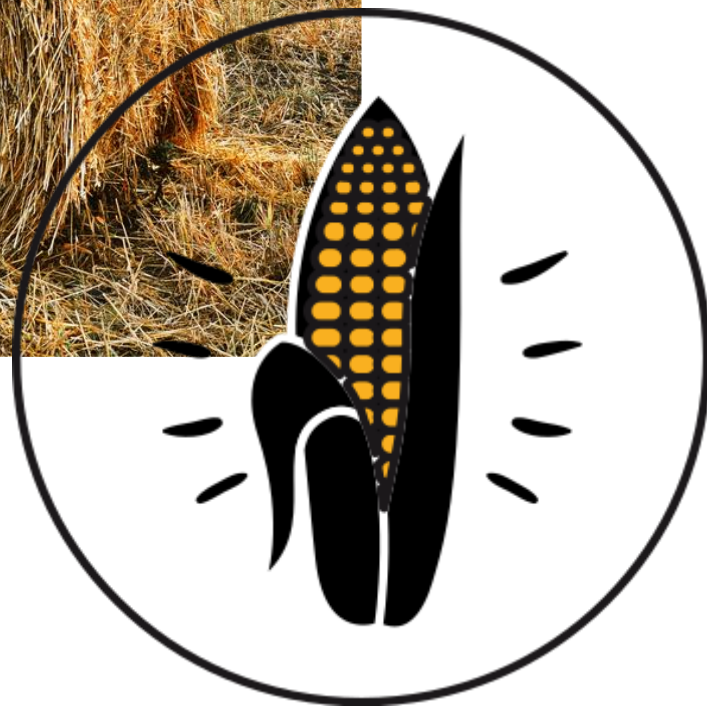
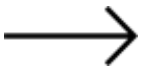
How to create an Income Statement



7 STEP PROCESS



Step 1:

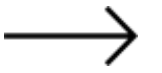


LIST AND TOTAL OPERATING REVENUE

- List and total all money received from sales of:
 - Crops
 - Livestock
 - Livestock products
- List all government payments, income from custom work and services, and any other source of miscellaneous farm income
- Do not include cash inflows from loans
- The total of these revenues is called Gross Operating Revenue



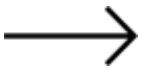
Step 2:



LIST AND TOTAL OPERATING EXPENSES

- List and total all money received from sales of:
 - Crops
 - Livestock
 - Livestock products
- List all government payments, income from custom work and services, and any other source of miscellaneous farm income
- Do not include cash inflows from loans
- The total of these revenues is called Gross Operating Revenue



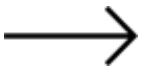


Step 3:

CALCULATE NET CASH OPERATING INCOME

- Net Cash Operating Income:
 - The result of total operating income minus total operating expenses
 - This value accounts for only cash transactions in a reporting period and does not include adjustments for non-cash activities



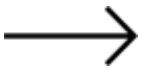


Step 4:

ADJUST FOR PERSONAL CONSUMPTION

- Adjust for personal consumption of farm products and personal use of business inputs and other items
 - Examples: meat, eggs, milk, business inputs, and expenses
- To accurately reflect actual income of the business, you must adjust for Non-Cash transactions





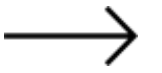
Step 5:

ADJUST FOR CHANGES IN INVENTORIES (INCLUDING RECEIVABLES AND PAYABLES)

- Make a positive adjustment for:
 - Products produced that haven't been sold
 - Money for products sold that has not been collected
- Make a negative adjustment for:
 - Supplies or inputs used that were paid for in a previous accounting period



Step 6:

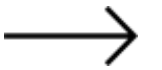


ADJUST FOR CHANGES IN CAPITAL ASSETS

- Capital Assets include both:
 - Cash transactions
 - Depreciation
- Data sources for this adjustment information:
 - Balance Sheet
 - Purchase and sale contracts for capital assets
 - Depreciation schedules used for income tax computations
 - Cash flow statements



Step 7:



CALCULATE NET FARM INCOME

Net Cash Operating Income	
+/-	Adjustment for Household Consumption
+/-	Inventory changes, including receivable and payables
+/-	Changes in capital assets
=	Net Farm Income



CSU's Income Statement



Completing a Income Statement, November 2020

By: Jeffrey E. Tranel, Jenny Beiermann, and R. Brent Young, Agriculture and Business Management Economists

An income statement, also known as a profit and loss statement, measures the profitability of a business over a specific period of time. Because cash basis accounting, while allowing considerable flexibility, does not accurately reflect true net income and business performance, the income statement takes into account changes in inventories, accrued expenses, delayed revenues, and capital sales and purchases.

The income statement accounts for all outputs and inputs for the specified period - (1) receipts and expenses, regardless of cash basis or accrual basis; (2) changes in inventories; (3) changes in assets due to purchases and sales; (4) tax accrued; (5) family living expenses; and (6) adjustments in accounts payable and accounts receivable. The income statement measures true net farm income and returns to unpaid operator and family labor, return to operator's management and risk, and return to investment and owner's equity.

Complete the income statement by entering the requested data in the appropriate cell.

What is the beginning date of the period (i.e. year) for which you are completing this income statement?

1/1/2021

What is the ending date of the period (i.e. year) for which you are completing this income statement?

12/31/2021

What is the name of the farm/ranch or person for which this income statement is being completed?

Under what type of legal entity does this farm/ranch operate?

(click on the cell and then to select an entity from the dropdown list)

[Click on the icon to see a list of entity types.](#)



Cash Receipts

CASH RECEIPTS (INCOME)					
DESCRIPTION	QUANTITY	UNITS	AVERAGE WEIGHT	PRICE (\$/UNIT)	INCOME
Crop Sales					
1					0
2					0
3					0
4					0
5					0
6					0
Livestock Sales					
5					0
6					0
7					0
8					0
9	Government Payments				
10	Custom Hire				
11	Crop Insurance Proceeds				
Other Income					
12					
13					
14					
TOTAL CASH INCOME					\$0

COSTS OF GOODS SOLD					
15					0
16					0
17					0

Cash Receipts (or income) are inflows of cash from the sale of production or assets during the period of time being considered. It does NOT include money from loans.

Enter a description of the item sold, the quantity sold, the type of units associated with the item sold (e.g. tons, bushels, lbs., cwt., head, etc.), and the sales price on a \$/unit basis.

For market livestock the average weight of the animals will also need to be entered. Be sure to enter both the average weight and price per pound or per hundredweight. If the animals were purchased, enter the purchase cost as a "cost of goods sold".

For specific sources of cash receipts you will enter only the total cash monies received.

Costs of Good Sold are the monies expended to buy items to be re-sold. The information may need to be taken from previous years' records. Costs of Goods Sold do not include capital assets.

Enter a description of the item purchased for resale, the number of items purchased for resale, the units (head, bushels, pounds, tons, etc.), the average weight of the item, and the price per unit.

If weight is not relevant, enter a "1" in the cell. If only the total amount is known, enter a "1" for number, leave the units blank, enter "1" for weight, and enter the total dollar amount for the price.

Cash Expenses & Depreciation

CASH EXPENSES				
DESCRIPTION	INFORMATION SOURCE			
	SCH F	OTHER		
1 Car and Truck Expenses				0
2 Chemicals				0
3 Conservation Costs				0
4 Custom Hire				0
5 Employee Benefits				0
6 Feed				0
7 Fertilizer and Lime				0
8 Freight/Trucking				0
9 Gas, Fuel, and Oil				0
10 Insurance				0
11 Interest				0
12 Labor				0
13 Pension and Profit-sharing Plans				0
14 Rents/Lease Payments - Vehicles				0
15 Rents/Lease Payments - Equipment				0
16 Rents/Lease Payments - Land (cash)				0
17 Rents/Lease Payments - Other				0
18 Repairs and Maintenance - Structures				0
19 Repairs - Machinery/Equipment/Vehicles				0
20 Seeds and Plants				0
21 Storage				0
22 Supplies				0
23 Taxes				0
24 Utilities				0
25 Veterinary, Breeding, and Medicine				0
Other				
26				0
27				0
28				0
TOTAL CASH EXPENSES				\$0

Cash Expenses are those outflows of cash made to purchase inputs for the production of the farm's commodities and products. Enter the total monies expended to purchase each category of input. If the source of the information is from a U.S. tax return for the period, enter the total expense in the "Sch F" column. If the source of the information is from any other source, enter the total expense in the "Other" column. Do NOT enter a value in both columns.

Depreciation is an allowance for the wear and tear and obsolescence of a capital asset. It is NOT a cash cost. However, it is important to include such an annual cost when computing the total profits or losses for a business. Enter a depreciation allowance in the appropriate cell in the section located below cash expenses. The value entered for depreciation may either be taken from the business's "Schedule F" tax form or a computed allowance.



Capital Sales & Purchases

CAPITAL SALES					
DESCRIPTION	NUMBER	UNITS	PRICE (\$/UNIT)	INCOME	BASIS
Breeding Livestock					
1		head		0	
2		head		0	
3		head		0	
4		head		0	
Machinery & Equipment					
5					
6					
7					
Land					
8		acres		0	
9		acres		0	
Other					
10					
11					
Total Capital Sales				\$0	\$0

CAPITAL PURCHASES					
DESCRIPTION	NUMBER	UNITS	PRICE (\$/UNIT)	COST	
Breeding Livestock					
1		head		0	
2		head		0	
3		head		0	
4		head		0	
Machinery & Equipment					
5					
6					
7					
Land					
8		acres		0	
9		acres		0	
Other					
10					
11					
Total Capital Purchases				\$0	

Capital Sales pertains to the capital assets (those asset typically depreciated for income tax purposes) that were sold within the period.

For breeding livestock and land, enter a description of the asset, the number sold, and the revenues generated from the sale of the asset. Also, enter any remaining basis (from the depreciation schedule) for each asset sold.

For machinery and equipment and other assets sold during the period, enter a description, net revenues received from the sale, and any remaining basis or purchase cost plus any improvements.

Capital Purchases pertains to the capital assets (those asset typically depreciated for income tax purposes) that were purchased within the period.

For breeding livestock and land, enter a description of the asset, the number sold, and the revenues generated from the sale of the asset. For machinery and equipment and other assets sold during the period, enter a description and total costs to purchase the asset.



Payables & Receivables

ACCOUNTS PAYABLE				
	ACCOUNT HOLDER	DESCRIPTION	AMOUNT PAYABLE as of	
			1/1/21	12/31/21
1				
2				
3				
4				
5				
6				
7				
8				
TOTAL AMOUNT PAYABLE AT BEGINNING OF PERIOD			\$0	
TOTAL AMOUNT PAYABLE AT END OF PERIOD				\$0

Accounts Payable are those bills which need to be paid on a specific date - in this case, the beginning of the period and end of the period.

Enter the name of the "account holder", a "description" of the item or items for which the bill is due, and the "amount payable" for the beginning of the period and end of the period. If there is an amount payable as of the beginning date but not as of the ending date - or vice versa, be sure to enter a zero ("0") in the appropriate cell (do not simply leave the cell blank).

Examples of account holders include: feed store, fuel supplier, another farmer or business. Be sure to include monies owed to the I.R.S. (and similar entities) for employee withholdings and self-employment taxes. Also, remember to include property and real estate

ACCOUNTS RECEIVABLE				
	ACCOUNT HOLDER	DESCRIPTION	AMOUNT RECEIVABLE as of	
			1/1/21	12/31/21
1				
2				
3				
4				
5				
6				
7				
8				
TOTAL AMOUNT RECEIVABLE AT BEGINNING OF PERIOD			\$0	
TOTAL AMOUNT RECEIVABLE AT END OF PERIOD				\$0

Accounts Receivable are those amounts owed to you (or your business) by another person or entity as of a specific date - in this case, the beginning of the period and end of the period.

Enter the name of the "account holder", a "description" of the item or items for which the bill is due, and the "amount payable" for the beginning of the period and end of the period. If there is an amount receivable as of the beginning date but not as of the ending date - or vice versa, be sure to enter a zero ("0") in the appropriate cell (do not simply leave the cell blank).



Inventories

BEGINNING INVENTORIES					
	DESCRIPTION	QUANTITY	UNITS	PRICE (\$/UNIT)	
1					0
2					0
3					0
4					0
5					0
6					0
7					0
8					0
9					0
10					0
TOTAL VALUE OF BEGINNING INVENTORIES					\$0

ENDING INVENTORIES					
	DESCRIPTION	QUANTITY	UNITS	PRICE (\$/UNIT)	
1					0
2					0
3					0
4					0
5					0
6					0
7					0
8					0
9					0
10					0
TOTAL VALUE OF ENDING INVENTORIES					\$0

Beginning Inventories are physical counts of assets you own at the beginning of the period.

Ending Inventories are those physical assets that you own at the end of the period. Examples include market animals, grain, hay for sale, feed (hay, silage, pre-mixed rations, grain, salt, etc.), fuel, and supplies. The values associated with each inventoried item should be based on purchase costs and market reports.

For both the beginning of the period and the ending date of the period, enter a description of the item, the quantity of each item, the units (e.g. tons, bushels, cwt., pounds, head), and a price per unit.

If only the total value of the items is known, enter a "1" for quantity, leave the units blank, and enter the total value as the price per unit.



Income Statement

INCOME STATEMENT

0

1/1/2021 - 12/31/2021

CASH FARM/RANCH RECEIPTS (INCOME)		
	Crop Sales	0
	Market Livestock Sales	0
	Breeding Livestock Sales	0
	Government Payments	0
	Custom Hire	0
	Crop Insurance	0
	Other Income	0
	Costs of Goods Sold	0
A	Total Cash Receipts (Income)	\$0
CASH FARM/RANCH EXPENSES		
	Car and Truck Expenses	0
	Chemicals	0
	Conservation Costs	0
	Custom Hire	0
	Employee Benefits	0
	Feed	0
	Fertilizer and Lime	0
	Freight/Trucking	0
	Gas, Fuel, and Oil	0
	Insurance	0
	Interest	0
	Labor	0
	Pension and Profit-sharing Plans	0
	Rents/Lease Payments	0
	Repairs and Maintenance	0
	Seeds and Plants	0
	Storage	0
	Supplies	0
	Taxes	0
	Utilities	0
	Veterinary, Breeding, and Medicine	0
	Other	0
B	TOTAL CASH EXPENSES	\$0
C	Changes in Value of Inventories	0
D	Depreciation	0
E	Gains or Losses from Capital Sales	0
F	Changes in Accounts Payable	0
G	Changes in Accounts Receivable	0
H	NET FARM INCOME (A - B + C - D + E + F + G)	\$0





AGRICULTURE AND BUSINESS MANAGEMENT

COLORADO STATE UNIVERSITY
EXTENSION

Thank You!

<https://abm.extension.colostate.edu>

