

The Oklahoma Cooperative Extension Service WE ARE OKLAHOMA

The Cooperative Extension Service is the largest, most successful informal educational organization in the world. It is a nationwide system funded and guided by a partnership of federal, state, and local governments that delivers information to help people help themselves through the land-grant university system.

Extension carries out programs in the broad categories of agriculture, natural resources and environment; family and consumer sciences; 4-H and other youth; and community resource development. Extension staff members live and work among the people they serve to help stimulate and educate Americans to plan ahead and cope with their problems.

Some characteristics of the Cooperative Extension system are:

- The federal, state, and local governments co-operatively share in its financial support and program direction.
- It is administered by the land-grant university as designated by the state legislature through an Extension director.
- Extension programs are nonpolitical, objective, and research-based information.
- It provides practical, problem-oriented education

for people of all ages. It is designated to take the knowledge of the university to those persons who do not or cannot participate in the formal classroom instruction of the university.

- It utilizes research from university, government, and other sources to help people make their own decisions.
- More than a million volunteers help multiply the impact of the Extension professional staff.
- It dispenses no funds to the public.
- It is not a regulatory agency, but it does inform people of regulations and of their options in meeting them.
- Local programs are developed and carried out in full recognition of national problems and goals.
- The Extension staff educates people through personal contacts, meetings, demonstrations, and the mass media.
- Extension has the built-in flexibility to adjust its programs and subject matter to meet new needs. Activities shift from year to year as citizen groups and Extension workers close to the problems advise changes.



Schedule of Assets

EXTENSION

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Oklahoma Cooperative Extension Fact Sheets
are also available on our website at:
extension.okstate.edu

asset will generate revenues⁴. This charge to each reporting period is known as **depreciation expense**. Historical cost provides a more conservative approach to valuation than the market value approach during inflationary periods.

An asset's **book value** is the cost less accumulated depreciation. When first acquired, an asset's book value is equal to the cost (accumulated depreciation is zero); at the end of its useful life, an asset's book value is equal to its salvage value (the asset has been fully depreciated).

The Farm Financial Standards Council recommends both current market value and book value be disclosed for most depreciable assets.⁵ Other valuation methods are recommended for certain types of assets and for those assets, cost or market value may or may not be considered important. **Net equity** may be used to determine the value of shares owned in cooperatives and investment in other entities. The most practical method of determining net equity is to utilize the financial reports made by those entities. The total equity for the entity is divided by the total number of outstanding shares to determine the **equity value per share**. This amount is then multiplied by the number of shares owned to arrive at net equity.

Depreciation Methods

Economic depreciation may be determined by one of several different methods. Each method relies on three components to calculate the depreciation expense. **Cost** is the original purchase price plus any additional expenses incurred to make the asset operational, e.g. freight, inspection, repairs, modifications, and installation. The asset's **useful life** is a second factor in determining depreciation since depreciation divides the expense of the asset over the time period in which it is used to generate revenue. The **salvage value** of the asset is the estimated market value of the asset at the end of its useful life.

The simplest method of calculating the depreciation expense to be charged to each reporting period is the **straight-line method**. This method allocates an equal amount of depreciation expense to each year of useful life:

Well designed schedules facilitate the calculation of values needed to complete financial statements, including the Balance Sheet, Cash Flow Statement, Income Statement, and Statement of Deferred Taxes and Valuation Equity (if used). This OSU Extension Fact Sheet provides instructions and forms for inventorying assets and documenting detail to support entries made in the financial statements¹. **Assets** include everything owned that has value, including claims against others. One set of schedules should be prepared for the beginning of the reporting period and a second set for the end of the reporting period. Schedules for the example farm of James and Dolly Madison are included for illustration².

Methods for Valuation

Current market value is an amount which would be received if the asset was sold at the balance sheet date. The amount is usually determined by an appraisal and is therefore subjective. Current market value may be required by lenders when the asset will be used to secure a loan. Market value is used to estimate the amount of taxes that will be owed if the assets are sold and to estimate owner equity. An estimate of direct costs necessary to convert an asset to cash may be subtracted to record a **net realizable value**.

For depreciable assets, another method of valuation is **historical cost**.³ This method is most useful in estimating costs of the assets associated with generating income for each reporting period during the life of an asset. If an expensive machine will be used to produce revenues over a 10-year period, it is inappropriate to charge the entire cost to the year of purchase. A portion of the non-recoverable cost of acquisition should be charged to each year in which the

¹ OSU Extension Facts AGE-792, Liabilities Schedule, provides a form for summarizing liabilities.

² For additional information on the Madison farm, see OSU Extension Facts AGE-751, Developing a Cash Flow Plan; AGE-752, Developing a Balance Sheet; and AGE-753 Developing an Income Statement.

³ **Depreciable assets** are durable items whose value is used up over a period of several years. They are listed on the Balance Sheet as **non-current assets**. Typical examples are machinery and vehicles, fruit/nut trees and other trees, breeding livestock, buildings, and improvements. Land is not a depreciable asset as it is never "used up" and will generally maintain or raise in value.

⁴ The non-recoverable cost of acquisition is the difference between the cost of the asset and its salvage value.

⁵ Financial Guidelines for Agricultural Producers: Recommendations of the Farm Financial Standards Council (Revised), January 2008.

Non-current

Date: _____

Name: _____

Description ²	Mo./yr. purchased	No. (A)	Market value per unit	Total market value ³	Cost per unit (B)	Total cost (A x B)	Years of useful life
Purchased Breeding Livestock							
Raised Breeding Livestock							
Subtotals - Brdg Lvstk							
Farm Vehicles							
Subtotals - Vehicles							
Machinery & Equipment							
Subtotals - Mach & Equip							
Investment in Cooperatives							
Subtotals - Co-op Investments							
Real Estate (Land)							
Subtotals - Real Estate							
Buildings & Improvements							
Subtotals - Bldg & Imprv							
Total Non-Current Farm Assets							
Non-farm Assets							
Subtotals - Non-Current Non-Farm Assets							
TOTAL NON-CURRENT ASSETS							
TOTAL ASSETS							

1 Non-current assets include breeding livestock, machinery, equipment, vehicles, investments in capital leases, contracts and notes receivable, investments in be maintained separately.
 2 Indicate whether new or used.
 3 May also be used to record the sale price of assets sold.
 4 For straight line depreciation, annual depreciation = (Total cost - Salvage value)/(Years of life). When the asset is first purchased, the amount of depreciation taken asset is purchased March 1, 10/12 of the year remains so the annual depreciation amount is multiplied by 10/12 to arrive at the depreciation amount for that year.
 5 Cost minus accumulated depreciation. Base value for breeding livestock.
 6 May also record death losses here.
 7 Price received per unit minus book value per unit times number sold.
 8 Depreciation schedules should be attached to your tax return and will list tax basis in depreciable assets.

arrive at the total market value for each listing. The sum of the determined market values is then transferred to the balance sheet.

The Madisons have made three entries for marketable livestock: one group of purchased steers, plus raised steers and raised heifers. On the first line of the Schedule of Assets, 167 head of steers valued at \$1,092 per head local market price = \$182,364 total value (rounded). The remaining lines are completed in the same manner. The total market value for all marketable livestock, \$241,992, can be found on line 5 of the balance sheet.

The market value of **raised crops and feed** is based on market price as of the date of the schedule. Included in this category are raised crops which are stored for sale at a later date and those which will be fed on the farm. The Madison's list 20 tons of prairie hay and 20 tons of alfalfa hay with a total market value of \$4,860 can be found on line 6 of the balance sheet.

Purchased Feed should be reported at cost. This value will usually not be very different from current market value unless a large amount of feed has been purchased and held for an extended period of time. An exception would be if feed is purchased for resale. The Madison's have no purchased feed on the balance sheet date.

Supplies are generally difficult to inventory due to the number and variety of items. Fuel, oil, lubricants, veterinary medicines, baling twine, fencing materials, nails, and welding rods are but a few examples. Some effort should be given to list those items of significant value. Others may be included as miscellaneous and given a single estimated value. Supplies should be entered at cost which will usually be similar to current market value. The total, \$2,000, is found on line 8 of the Madison's balance sheet.

Other Entries may include farm savings and non-farm current assets. Savings are generally regarded as a non-farm account and recorded on line 11 of the balance sheet. If the funds are intended for farm use only, savings are entered on line 9 of the Balance Sheet, "Other Current Assets."

Non-Current Assets

Non-current assets are durable items which have a useful life of more than one year, for example, breeding livestock, machinery, equipment, and real estate. For a market-based balance sheet, **Purchased Breeding Stock** are valued at the current market price. Current market price could be interpreted as a price which represents replacement breeding stock or slaughter price. Although some animals are culled and sold for slaughter from time to time, using slaughter price tends to understate the value of the animals. Using the price of purchasing a replacement of like quality is recommended when estimating market value. It is not necessary to value each animal separately; an average value for the entire herd or for groups based on age or other factors is adequate.

The initial cost should be recorded as the average cost per animal purchased multiplied by the number of those placed in the herd. Annual economic depreciation expense is calculated by subtracting the expected salvage value (price expected when culled from the herd) from the purchase price and dividing by the number of years that the animal is expected to be kept for breeding purposes. Only a part of this amount is recorded for the year of purchase unless the purchase was

made very close to the asset schedule date. Accumulated depreciation keeps track of the total depreciation recorded to date and is subtracted from the original cost to arrive at a depreciation-adjusted cost basis, or book value.

In the Madison example, only herd bulls are purchased. Two bulls were purchased in 2014 for \$3,000. Two bulls were purchased in January 2019 for \$1,800 each. The Madisons expect to keep these two bulls for five years and estimate their salvage value to be \$1,200 each. Annual depreciation expense for the two bulls purchased in 2014 is \$240:

$$\frac{(3,600-2,400)}{5} = 240$$

On March 1, 2019, they recorded accumulated depreciation of \$40 for January through March (\$240 ÷ 12 months per year x 2 months elapsed time = \$40). Subtracting accumulated depreciation from the total cost of \$3,600 leaves a book value of \$3,560 for both bulls.

Market value for **raised breeding stock** is determined in the same manner as for purchased breeding stock. Cost determination for raised breeding stock is more complicated. Full cost absorption involves extensive record keeping to calculate the cost of raising individual animals or groups of animals to production age. The costs are not expensed, but are depreciated over the useful life once the animal reaches production. A simpler, and therefore less expensive, method is base value. An estimate of the cost to raise an animal to production is used. The costs are expensed and base value is not depreciated. The Farm Financial Standards Council recognizes both full cost absorption and base value as acceptable. A more complete discussion of valuation of raised breeding stock and the following estimates are found in OSU Extension fact sheet AGEC-323. The base value method was chosen for the Madison farm example. The Madisons estimate the cost of raising replacement heifers to weaning age, \$750; breeding age, \$945; and first calf age, \$1,000. These estimated costs are multiplied by the number of animals in each group and recorded in the columns for cost and book value. The base value is held constant year after year until the cost changes significantly.

Market value for **machinery and equipment** usually declines rapidly in the first few years that a new item is placed in service and more gradually in later years. However, machinery values may actually increase during times when farming is profitable and when the price for new machinery is increasing. Market value should be estimated for each major piece of machinery using local market conditions. The value entered should be the best estimate of what the machine would bring if it were sold on the date of the balance sheet.

Cost is recorded at the original purchase price, including any costs for freight and/or modification necessary to place the machine in service⁶. To calculate annual depreciation expense, subtract the expected salvage value from cost and divide by the estimated number of years that the machine will be in use. Accumulated depreciation is found by multiplying the number of years and partial years that the machine has

⁶ Today's prices were used in this case farm. Producers should use the price paid for their particular piece of machinery.

been used at the asset schedule date. The Non-current Asset Schedule lists the Madison's machinery.

The JD 9370R tractor was purchased in May 2017 for \$278,000. They expect to use it for 15 years and estimate the tractor's salvage value as \$69,500 at the end of that time period. Annual depreciation expense is $(\$278,000 - \$69,500) \div 15 = \$13,900$. Depreciation expense for May 2017 through December 2017 is $(\$13,900 \div 12 \times 8) = \$9,266$. This is the accumulated depreciation recorded on Jan. 1, 2018. For the year 2019 statements in the example, an additional \$16,217 (one full year and two months of depreciation) is added to the previously recorded \$9,266 for an accumulated depreciation of \$25,483. This amount is subtracted from the original cost to arrive at the book value of \$252,516.

The CIH 2366 combine was purchased in May 2011. Annual depreciation is $(\$325,000 - \$61,640) \div 12 = \$21,946$. Accumulated depreciation 2011 through 2019 is \$171,915. Book value is $\$325,000 - \$171,915 = \$153,085$.

Farm **vehicles** are valued exactly like machinery and equipment and can be found on line 17 of the balance sheet. Personal vehicles, however, which are not used primarily in operating the farm should be excluded. These vehicles would be found on the balance sheet (line 27) as non-farm assets.

Capital leases are, in simple terms, "lease-purchase" agreements. Title to the item acquired by a capital lease is transferred to the lessee at some point or the major part of the value of the item is used up by the lessee over the term of the lease. Specific rules apply to determine if a capital lease exists. See OSU Extension fact sheet AGEC-935 for more detailed information about capital leases. Farm assets acquired by capital lease are usually machinery or vehicles and are entered in the schedules in the same manner, but separate from the machinery and vehicles listings. The FFSC recommends that book value be recorded in the balance sheet regardless of whether the remainder of the balance sheet is developed using a cost or market basis. For example, if the Madisons acquired a combine by capital lease in May 2018, the original cost is \$378,000, determined by discounting the payments to present value. Expected useful life is 10 years and estimated salvage value is \$25,000. Annual depreciation expense is $(\$378,000 - \$25,000) \div 10 = \$35,300$. Depreciation expense charged in the purchase year is $\$35,300 \div 12 \times 5 = \$14,708$. Book value, $\$378,000 - \$14,708 = \$363,292$, would be entered in the ending balance column on line 17 of the balance sheet.

The market value for **Real Estate (Land)** is determined by appraisal, usually made by the owner. This value should reflect the best estimate of what the land could be sold for at the balance sheet date. Cost is the original amount paid for the land plus any costs for terraces, water wells and ponds which are fixed to the land and which were not expensed. Land is assumed to maintain its productive capacity and is not depreciated. Therefore, land's book value is equal to its cost.

Buildings and Other Forms of Improvements are real property, but the value is depreciated. Market values for buildings, silos and other improvements are estimates of the price which would be received if the land were sold on the asset schedule date. Depreciation is calculated in the same manner as for machinery and other depreciable farm assets. The main difference is that the useful life is usually much longer.

Non-current **Non-Farm Assets** should be listed separately from farm assets so that accurate business financial statements can be prepared. The rules applied to farm assets also apply when determining market value, cost, depreciation, and book value of non-farm assets.

Economic Gains (Losses) on the Sale of Assets

Gains and losses on the sale of assets are generally determined by the amount that sale price exceeds the book value of the asset. Here, the focus is on economic gains and losses rather than taxable gains and losses. Hence, market value is compared to the book value rather than the tax basis.⁷

For marketable securities, the book value (cost basis) is equal to the original cost of the securities including brokerage fees, if any. Book value for purchased market livestock is the original purchase price. For the Madisons, the book value of purchased market livestock, \$143,286, was the total cost of the purchased steers. The costs of raising animals to a heavier weight are expensed and do not affect the cost basis.

The costs of raised marketable livestock (e.g. raised stockers) are also expensed so proceeds from their sale is operating income (rather than a gain or loss). Likewise, proceeds from sale of raised crops and feed are operational income since the costs of production are expensed during the period.

Gain/Loss from the Sale of Culled Breeding Stock sums gains and losses from sales of raised and purchased breeding animals culled. For raised breeding livestock, the gain/loss is calculated by subtracting the base value from the sale proceeds; for purchased breeding stock, subtract the cost basis from the sale proceeds to determine the gain or loss. A positive number indicates a gain on the sale; a negative number indicates a loss on the sale. Only the gain from the sale — not the gross revenue — is recorded; otherwise the revenue will be overstated. The Madisons plan to cull ten raised cows from the breeding herd. The cows are expected to net \$9,000, a loss of \$1,000 when compared to their base value (Madison Non-Current Assets Schedule). Thus, the gain/loss on culled breeding stock is negative \$1,000. If a material downsizing or complete liquidation of the herd occurs, the gain/loss on sale should be recorded on the income statement (line 59) after Net Farm Income from Operations and before accrual adjusted Net Farm Income.

Gain/Loss on Sales of Farm Capital Assets (line 59) sums gains and losses from the sale of farm vehicles, machinery, equipment, buildings, etc. While not a routine operating item, sales of capital assets and marketable securities are used to determine the overall farm profit or loss for the accounting period. The difference between the value for which the item is sold and the adjusted cost or basis is the amount

⁷ A common practice is to use tax depreciation rather than economic depreciation to determine the book value of assets. However, the IRS depreciation schedule may, or may not, approximate economic depreciation. Using the tax depreciation method is simpler because depreciation expense needs to be calculated only once. The tax depreciation method will not cause significant problems if farmers replace depreciable assets of a like-dollar amount each year; however, this is not the usual replacement schedule. Therefore, use of tax depreciation may seriously reduce the comparability of financial statements from year to year.

Assets Schedule¹

Depreciation Method: Straight Line Double Declining Balance
 Raised Breeding Livestock Valuation Method: Base Value, Group Approach

150 Declining Balance
 Base Value, Individual Animal Approach
 Full Cost Absorption

	Salvage value (Total)	Depreciation expense ⁴	Accumulated depreciation (Total)	Book value ⁵	Units sold ⁶	Date sold	Price Recv'd	Gain/loss on sale ⁷	Tax Basis ⁸
	1,000	0	0	1,000	1	4/19	960	-40	42
	1,200	40	0	3,560					1,428
	---	---	---	1,710					---
	---	---	---	3,040					---
	---	---	---	28,500	10	3 & 10/19	9,000	-1000	---
				37,810				-1,040	1,470
	7,460	3,786	60,591	60,082					0
	4,700	3,891	18,289	47,116					1,000
	9,350	5,858	8,201	36,298					16
				143,495					1,016
	69,500	11,583	25,483	252,516					194,152
	6,747	4,779	10,514	82,257					63,982
	61,640	18,288	171,915	153,085					0
	5,421	1,863	14,723	34,426					0
	7,865	2,381	14,052	39,542					15,190
	15,118	4,505	20,726	59,273					0
	7,587	2,597	15,846	29,148					12,122
	3,041	5,112	24,026	71,033					38,300
				722,284					323,746
				56,000					56,000
				59,200					59,200
				160,000					160,000
				116,000					116,000
				156,000					156,000
				547,200					547,200
	0	500	8,708	5,833					0
	5,000	369	2,491	16,931					2,904
	5,000	620	2,893	26,338					7,922
				49,102					10,826
				1,033,393					653,112
	20,000	386	5,731	22,769					14,466
	30,000	2,666	53,333	104,667					158,000

cooperatives, land, buildings and improvements and other non-current assets. A schedule for raised breeding livestock as well as a non-farm asset inventory should

the first year is the annual depreciation amount multiplied by the proportion of the year remaining. For example, if the accounting year begins January 1 and the as-

Madison Non-current

Date: March 1, 2019

Name: James & Dolly Madison

Description ²	Mo./yr. purchased	No. (A)	Market value per unit	Total market value ³	Cost per unit (B)	Total cost (A x B)	Years of useful life
Purchased Breeding Livestock							
<i>Bull-7 yr. old</i>	1/14	2	1,900	3,800	1,500	3,000	5
<i>Bull-4 yr. old</i>	1/19	2	2,300	4,600	1,800	3,600	5
Raised Breeding Livestock							
<i>Replacement heifers</i>	---	10	1,000	10,000	750	7,500	---
<i>Bred heifers</i>	---	10	1,045	10,450	945	9,450	---
<i>Cows</i>	---	80	1,100	88,000	1,000	80,000	---
Subtotals - Brdg Lvstk				116,850			
Farm Vehicles							
<i>IH Workstar 7500</i>	10/05	1	66,950	66,950	121,033	121,033	25
<i>GMC 3500HD</i>	4/15	1	41,963	41,963	65,405	65,405	13
<i>Dodge Pickup</i>	12/17	1	24,995	24,995	44,499	44,499	5
Subtotals - Vehicles				133,908			
Machinery & Equipment							
<i>JD 4066M</i>	7/14	1	28,282	28,282	41,900	41,900	15
<i>JD 9370R</i>	5/17	1	194,000	194,000	278,000	278,000	15
<i>Kuhn Krause 25' disk</i>	5/17	1	84,900	84,900	92,772	92,772	15
<i>CIH 5150 combine</i>	5/11	1	105,000	105,000	325,000	325,000	12
<i>Kuhn Krause 30' springtooth</i>	7/12	1	42,000	42,000	50,150	50,150	20
<i>Sunflower 4530 chisel</i>	3/14	1	45,000	45,000	53,595	53,595	16
<i>JD 455 35' hoedrive</i>	4/15	1	40,000	40,000	80,000	80,000	12
<i>NH 460 baler</i>	1/14	1	25,500	25,500	44,995	44,995	12
<i>JD W150 swather</i>	3/15	1	82,000	82,000	95,060	95,060	15
Subtotals - Mach & Equip				646,682			
Investment in Cooperatives							
<i>Klondike Farmers Coop</i>		1		18,000			
Subtotals - Co-op Investments				18,000			
Real Estate (Land)							
<i>NE 1/4 Sec 21</i>	6/86	160	1,790	286,400	350	56,000	
<i>NW 1/4 Sec 21</i>	8/86	160	1,880	300,800	519	83,000	
<i>E 1/2 Sec 16</i>	4/89	320	1,835	587,200	566	181,000	
<i>NW 1/4 Sec 15</i>	5/00	160	1,880	300,800	700	112,000	
<i>NW 1/4 Sec 36</i>	8/04	160	1,880	300,800	733	117,280	
Subtotals - Real Estate				1,776,000			
Buildings & Improvements							
<i>Hay barn</i>	9/00	1	7,000	7,000	15,000	15,000	30
<i>Farm shop</i>	7/05	1	15,000	15,000	19,760	19,760	40
<i>Machine shed</i>	5/07	1	25,000	25,000	29,800	29,800	40
Subtotals - Bldg & Imprv				47,000			
Total Non-Current Farm Assets				2,738,440			
Non-farm Assets							
<i>Cash Value of Life Insurance</i>				14,056			
<i>Investment in Other Entities</i>				15,000			
<i>Farm house</i>	6/02	1	125,000	125,000	158,000	158,000	40
Subtotals - Non-Current Non-Farm Assets				154,056			
TOTAL NON-CURRENT ASSETS				2,892,496			
TOTAL ASSETS				3,228,732			

1 Non-current assets include breeding livestock, machinery, equipment, vehicles, investments in capital leases, contracts and notes receivable, investments in be maintained separately.

2 Indicate whether new or used.

3 May also be used to record the sale price of assets sold.

4 For straight line depreciation, annual depreciation = (Total cost - Salvage value)/(Years of life). When the asset is first purchased, the amount of depreciation taken asset is purchased March 1, 10/12 of the year remains so the annual depreciation amount is multiplied by 10/12 to arrive at the depreciation amount for that year.

5 Cost minus accumulated depreciation. Base value for breeding livestock.

6 May also record death losses here.

7 Price received per unit minus book value per unit times number sold.

8 Depreciation schedules should be attached to your tax return and will list tax basis in depreciable assets.

of depreciation that was over or under expensed in previous time periods.

James and Dolly Madison estimate a depreciation expense of \$69,224 for year 2019 using the straight-line method for all depreciable assets.

Values for Tax Purposes

When an asset is purchased, the tax basis is the original cost of a depreciable asset for which a business expense, depreciation, may be claimed for tax purposes. During the asset's useful life, tax basis is also used to describe the remaining cost which has not been claimed in prior periods. Costs of major repairs, such as an engine overhaul or a new roof on a building, are added to the remaining tax basis for depreciation rather than expensed in the year when the repair occurs.

Tax depreciation is a method of allocating the cost of an asset, a business expense, to each tax year during the life of the asset. The method and the life of the asset are specified by Congress and disclosed by the Internal Revenue Service. It is determined by subtracting the allowable depreciation specified in IRS publications from the purchase price.

Modified Accelerated Cost Recovery System (MACRS) is an accelerated tax depreciation method, in use at the time this fact sheet was written, to allocate the cost of an asset for tax purposes and encourage investment in durable goods. Machinery, for example, can be fully depreciated in seven years (actually 8 years because only one-half of annual depreciation is recognized in the year of purchase). Salvage value is

set at zero.⁸ Therefore, any amount recovered upon disposal after the depreciation period is taxable as regular income. The amount received on the sale or trade-in is used to reduce the tax basis of an asset of the same kind which is purchased as a replacement. Thus the tax is deferred until the end of the useful life of the replacement asset. This also results in a smaller annual tax depreciation expense for the replacement asset. The deferral process can be continued indefinitely.

In the year 2019, James and Dolly will claim \$69,224 as depreciation expense on their income tax returns. If they had used tax depreciation rules to prepare the financial statements, Net Farm Income would have been reported as \$29,084, which is \$2,462 lower than actual Net Farm Income of \$31,546. Since the change in Retained Earnings for the year is directly related to Net Income, the use of tax depreciation rules would have caused an understatement in reported retained earnings. While not a large percentage basis in this year, the results can be dramatically different.

Summary

Valuation of durable goods at current market value, cost, book value, and tax basis are all useful in determining the overall financial position of a farm business. Agricultural producers should understand the difference between depreciation expense which is used for financial reporting and tax depreciation which is set by Congress for a different purpose.

⁸ The use of the IRC § 179 expensing election allows the business to deduct a much larger amount or even its entire cost (if certain requirements are met) in the year that an asset is purchased. Therefore, the distortion in the after-tax net income will be even larger than if the asset had been depreciated using standard depreciation methods.

Current Assets Schedule 1

Name: James & Dolly Madison

Date: March 2019

Description ²	Number	Unit ³	Market value per unit (\$) ⁴	Total market value (\$)	Cost per unit (\$)	Total Cost (\$) ⁵
Cash and Checking				3,421		
Accounts Receivable				900		
Cash Investment - growing crops ⁶	499	acres		54,669	109.55	54,669
Wheat						
Sub Total - Growing Crops				54,669		54,669
Marketable Livestock						
Steers	167	head	1,092.00	182,364	858	143,286
Raised Steers	34	head	1,050.00	35,700	—	—
Raised Heifers	24	head	997.00	23,928	—	—
Sub Total - Market Livestock				241,992		143,286
Stored Crops and Feed						
Prairie Hay	20	tons	68	1,360	—	—
Alfalfa Hay	20	tons	175	3,500	—	—
Sub Total - Stored Crops & Feed				4,860		
Purchased Feed						
Sub Total - Purchased Feed						
Supplies						
Steel Posts	75	posts	3.90	293		293
Diesel Fuel	300	gallons	2.50	750		750
Oil	20	gallons	4.60	92		92
Miscellaneous				865		865
Sub Total - Supplies				2,000		2,000
Total Current Farm Assets				\$307,842		199,955
Non-farm Assets						
Savings				28,394		
TOTAL CURRENT ASSETS				\$336,236		

1 Include cash and checking accounts, marketable securities, accounts receivable, prepaid expenses, cash investment in growing crops, market livestock inventories, stored crops and feed, purchased feed, supplies, other current assets and non-farm assets including savings and other non-farm assets. Subtotals for each of these groups of assets transfer to the balance sheet.
 2 Include average weight on market livestock.
 3 Shares, certificates, head, bushels, cwt, tons, bags, spools, cartons, doses, acres, etc.
 4 May not differ from cost.
 5 In most instances total cost will be equal to tax basis.
 6 The total cost of the cash investment in growing crops is also used as the market value of growing crops.

Current Assets Schedule 1

Name: _____

Date: _____

Description ²	Number	Unit ³	Market value per unit (\$) ⁴	Total market value (\$)	Cost per unit (\$)	Total Cost (\$) ⁵
Cash and Checking						
Marketable Securities						
Cash Investment - growing crops ⁶						
Sub Total - Growing Crops						
Marketable Livestock						
Sub Total - Market Livestock						
Stored Crops and Feed						
Sub Total - Stored Crops & Feed						
Purchased Feed						
Sub Total - Purchased Feed						
Supplies						
Sub Total - Supplies						
Total Current Farm Assets						
Non-farm Assets						
Savings						
TOTAL CURRENT ASSETS						

1 Include cash and checking accounts, marketable securities, accounts receivable, prepaid expenses, cash investment in growing crops, market livestock inventories, stored crops and feed, purchased feed, supplies, other current assets and non-farm assets including savings and other non-farm assets. Subtotals for each of these groups of assets transfer to the balance sheet.
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