

Farm Accounts

What is the Purpose of Farm Accounts?

Farming is a business and therefore should keep proper and suitable records. Farm accounts are prepared in order to:

- Establish the profit or loss of the farm
- Establish the value of the farm
- Its required for loans and EU grants
- To facilitate planning and budgeting
- To make comparison between previous years
- To present accounts to the Revenue Commissioners
- Establish the effectiveness and performance of each section of the farm

Farmers should prepare the following books and accounts:

- An analysed cash book or an analysed receipts and payments account
- Enterprise analysis accounts
- A general profit and loss account and balance sheet



Payments										
Date	Details	Sheep	Dairy wages	Cattle	Drawings	General Wages	Seed	Sheep feed	Sundries	Total
Feb-04	Cattle			€ 29,000.00						€ 29,000.00
Feb-06	Dairy wages		€ 250.00							€ 250.00
Feb-09	Sheep	€ 14,000.00								€ 14,000.00
Feb-10	Drawings				€ 300.00					€ 300.00
Feb-10	General wages					€ 260.00				€ 260.00
Feb-12	Seed						€ 400.00			€ 400.00
Feb-13	Dairy wages		€ 250.00							€ 250.00
Feb-15	Repairs								€ 220.00	€ 220.00
Feb-18	Sheep feed							€ 420.00		€ 420.00
Feb-23	General wages					€ 260.00				€ 260.00
	Total Paid	€ 14,000.00	€ 500.00	€ 29,000.00	€ 300.00	€ 520.00	€ 400.00	€ 420.00	€ 220.00	€ 45,360.00
Feb-28	Bal c/d									€ 20,900.00

Some Theory

What are Enterprise Analysis Accounts?

An enterprise analysis account is a trading, profit and loss account for a particular enterprise. The balance, namely the gross profit and contribution of their enterprise is transferred to the general profit and loss account of the farm. Dividing up some expenses, such as general wages or interest might be necessary.

The figures used in the enterprise analysis account are the analysis totals taken from the receipts and payments analysis columns. When separate enterprise analysis accounts are used, it is necessary to prepare a general profit and loss account. Into this general accounts, the profit or loss of each enterprise is transferred. A balance sheet should then be prepared in the same way as for any other business.

Terms associated with farm accounts

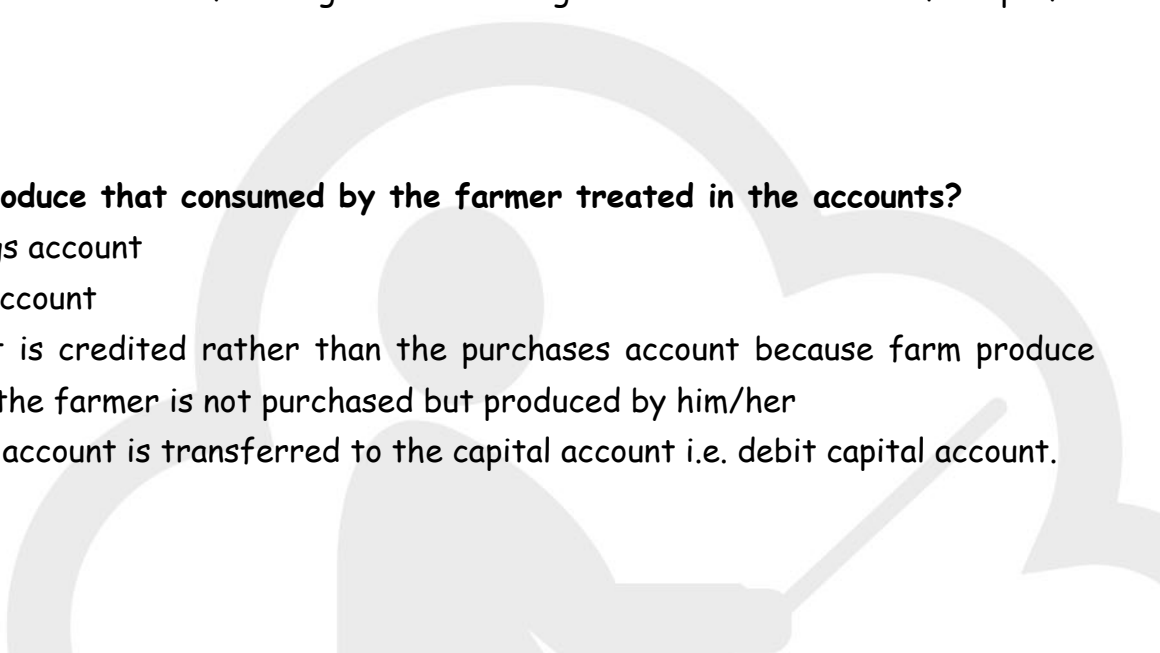
- **Single payment:** This is a payment introduced in 2005 and replaces a number of old subsidies. Under this scheme each hector of land has specific entitlements.
- **Conacre:** This is a rental payment made by a farmer to a landowner for the use of their land. Payment can be made yearly.
- **Disadvantaged Areas Compensatory Allowance Scheme:** These are payments made to farmers in disadvantaged areas. They are partly funded by the EU.
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- Rural Environment Protection Scheme: Payments are made to farmers to protect the farm environment and it's funded by the EU. It can be a significant source of income to non-intensive farmers.

Valuation of Stock

Stock is valued in the same way as the stock of any business i.e. at the lower of cost and net realisable value. The cost of maintaining livestock is added to the purchase price for valuation purposes and the cost of sowing and harvesting is added in the case of crops for valuation purposes.

How is the farm produce that consumed by the farmer treated in the accounts?

- Debit drawings account
 - Credit sales account
 - Sales account is credited rather than the purchases account because farm produce consumed by the farmer is not purchased but produced by him/her
 - The drawings account is transferred to the capital account i.e. debit capital account.
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Consumption of Farm Produce

Farm produce consumed by a farmer is treated as drawings. Then drawings account is debited and the particular sales are credited. The sales account rather than the purchases account is adjusted because farm produce is produced rather than purchased.

Let's take a look at an example

Q13.2

From the figured in the receipts and payments book from Q13.1, prepare an enterprise analysis account for "cattle and milk" for the month of February. The following information should also be taken into account.

- a) Milk used by the family during Feb was €220
- b) Value of cattle at cost on 1/2/2012 was €110,000
- c) Value of cattle at cost on 31/12/2012 was €115,000
- d) Amount of single payment applying to cattle and milk was €1,000

Enterprise Analysis Account - Cattle and Milk for month ending 28 Feb 2012

Income		
Sales		
Cattle		€ 23,000.00
Milk		€ 2,400.00
Milk used by family		€ 220.00
		€ 25,620.00
Less Cost of sales		
Opening stock	€ 110,000.00	
Add purchases	€ 29,000.00	
	€ 139,000.00	
Less Closing Stock	€ 115,000.00	€ 24,000.00
		€ 1,620.00
Add Single payment		€ 1,000.00
		€ 2,620.00
Less Expenditure		
Dairy wages		€ 500.00
Gross profit/ contribution from cattle and milk		€ 2,120.00

Homework Q13.3



(a)

Statement of Capital 1/1/2005

	€	€
Assets		
Land & buildings	290,000 (2)	
Machinery	60,000 (2)	
Investments	30,000 (3)	
Milk cheque due	2,400 (1)	
Cattle	60,000 (1)	
Sheep	18,000 (1)	
Fuel	800 (1)	
Bank	<u>2,800 (2)</u>	464,000
Liabilities		
Electricity due	400 (1)	
Bank Loan	15,000 (2)	
Loan interest due	<u>1,050 (3)</u>	<u>16,450</u>
Capital		<u><u>447,550</u> (1)</u>

W1

(b) **General Profit and loss Account for the year ended 31/12/2005**

Income		€	€
Gross profit – Cattle and Milk		24,300	
Sheep		20,300	
Interest	W5	1,200 (1)	
Forestry premium		<u>2,100 (1)</u>	47,900
 Less Expenditure:			
Light, heat and fuel (80%)	W6	2,320 (4)	
Repairs (80%)		5,040 (1)	
Machinery Depreciation		5,320 (1)	
Loan Interest	W1	<u>240 (2)</u>	<u>12,920</u>
Net Profit			<u>34,980 (2)</u>

d)

- To find out the profit of the farm
- To find out the net worth of the farm
- To find out the profit of each section of the farm
- To back up applications for grants and bank loans
- To facilitate planning/ budgeting

Workings

1. Interest - 18 months interest	=	$6\% \times 1.5 = 9\%$	
109%	=	16,350	
9%	=	1,350	
Interest for year 2005	=	300	
Less Drawings		<u>60</u>	240
2. Milk sales		28,000	
Add due 31/12		1,800	
Less due 1/1		<u>(2,400)</u>	27,400
3. Fertiliser		3,000	
Add due 31/12		<u>400</u>	3,400
4. Veterinary fees		1,750	
Less VHI		<u>(650)</u>	1,100
5. Investment Interest		600	
Interest due		<u>600</u>	1,200
6. Light Heat and Fuel		3,400	
Add stock 1/1		800	
Less due 1/1		(400)	
Less stock 31/12		(900)	
Less drawings (20% of 2,900)		<u>(580)</u>	2,320

