

## Review II – Financial Accounting

Charles B. Moss<sup>1</sup>

<sup>1</sup>Food and Resource Economics Department  
University of Florida

February 7, 2018

# Land Purchases

Table 1. Land Purchases

Year	Acres	Price	Value
2000	640	2,350	1,504,000
2005	160	?	520,000
2010	640	4,590	?
2016	480	7,450	3,576,000
Total	1,920		A1

# Equipment

Table 2: Equipment Purchases

Year	Item	Amount Paid	Share Financed	Int. Rate	Term	Useful Life
2016	Tractor	250,000	85 %	0.095	5	5
2017	Combine	450,000	80 %	0.090	5	5
2015	Misc Equip	400,000				

Table 3: Tractor Payment Schedule

Year	Pmt	Int Paid	Prin Paid	Remaining Value
				?
2016	66,313	20,188	?	A2
2017	66,313	A3	A4	115,868

Table 4: Illinois Farm Balance Sheet – Beginning 2017

Assets				Liabilities and Equity	
Cash		205,000		Operating Loan	250,000
Crop Inventory		119,000		Equipment Loans	526,375
Equipment				Mortgage	6,381,856
Cost Basis	A5			Equity	A9
Acc. Depreciation	210,000	A6			
Long Term Assets					
Land	A7				
Buildings	1,280,640	?			
Total Assets		A8		Total Liabilities	?

# Question 1 - 11

1. What is the historical cost basis for farmland (A1)?
2. The debt on the tractor at the beginning of 2017 (A2) is
  - a. \$ 212,500
  - b. \$ 60,562
  - c. \$ 166,375
  - d. None of the above
3. The interest paid on the tractor in 2017 (A3) will be
  - a. \$ 20,188
  - b. \$ 25,315
  - c. \$ 15,806
  - d. None of the above
4. Calculate the principal payment on the tractor in 2017 (A4).

# Complete the Balance Sheet

5. The Cost Basis for equipment (A5) is:
  - a. \$ 890,000
  - b. \$ 1,100,000
  - c. \$ 290,000
  - d. None of the above
6. Calculate the net value of Equipment (A6).
7. What is the land value on the balance sheet (A7) ?
8. The Total Asset Value (A8) is
  - a. \$ 11,032,240
  - b. \$ 12,575,035
  - c. \$ 9,997,250
  - d. None of the above
9. Calculate Owners Equity (A9).

# Income/Cost of Production

- Assume that the farmer plants 1,056 acres of corn and 864 acres of soybean.
- The cash cost of production are given in Table 4.

Table 4. Cash Cost of Production

Item	Corn	Soybeans
Seed	115,516	61,068
Pesticide	70,182	37,100
Fertilizer	116,139	61,396
Fuel	30,793	16,278
Total	332,630	175,842

# Depreciation Allocation

Table 5. Allocation of Depreciation

Item	Total		
	Depreciation	Corn	Soybean
Tractor	50,000	32,500	17,500
Combine	90,000	58,500	31,500
Misc	80,000	52,000	28,000
Total		143,000	77,000



- Finally assume that the interest rate on the operating loan is 12.5 %. Further assume that 65 % of the interest is attributed to corn while 35 % is allocated to soybean.
10. Given the accounting entry to recognize cash expenses is

Table 6: Accounting for Cash Expenses	
A10	508,472
Cash	508,472

The account A10 is:

- Growing Crops
- Cost of Goods Sold
- Income Summary
- None of the above

11. Assuming that the farmer harvests 184,800 bu of corn and 34,560 bu of soybeans – compute the cost per bushel for each commodity (include cash expenses, depreciation, and interest on operating debt).
12. Form the accounting entry to move the cost of production from Growing Crops to Crop Inventory for sale.
  - Assume that the initial crop inventory is composed of 45,000 bu of corn (with a cost of \$ 1.95 / bu.) and 5,000 bu. of soybeans (with a cost of \$ 6.25/ bu.).
13. Assume that the farmer sells 190,000 bu. of corn and 40,000 bu. of soybean – what is the cost of goods sold (state your accounting assumptions).

# Final Accounting Entries

Table 7: Accounting Entries

Interest Paid	48,206	
Equipment Debt	331,786	
Cash		379,992
Interest Paid	382,911	
Mortgage	173,488	
Cash		556,399

14. Compute net income for the corn/soybean farm.

# General Questions

15. The forgoing computations are examples of
  - a. Cash accounting
  - b. Accrual accounting
  - c. Tax accounting
  - d. None of the above.
16. One of the primary goals of accrual accounting is to
  - a. Make accounting as confusing as possible.
  - b. Give a good depiction of the cash flows during the year.
  - c. Match expenses with income.
  - d. All of the above.
17. The Financial Accounting Standards Board (FASB)
  - a. Makes pronouncements regarding Generally Accepted Accounting Principles (GAAP).
  - b. Forms the basis for the accounting statements issued by publicly traded firms.
  - c. Implicitly makes the standards for financial auditors.
  - d. All of the above.

## General Questions – Continued

18. The financial statements for small firms (sole proprietorships or closely held corporations)
- a. Must be FASB compliant and audit-able to meet reporting requirements.
  - b. Should include GAAP and other information such as market valued balance sheets to be useful to lenders and the firm's decision makers.
  - c. Must be compiled consistent with Internal Revenue Service guidelines to be useful for lenders and the firm's decision makers.
  - d. All of the above
19. The Statement of Cash Flows
- a. Can be computed using either the Direct or Indirect methods
  - b. Is a useful tool for analyzing the liquidity of the firm
  - c. Is not currently required under FASB, but suggested by the Farm Financial Accounting Standards Council (FFSC)
  - d. All of the above

# General Questions – Continued

20. Valuation issues raised by the Farm Financial Accounting Standards Council (FFSC) include
- a. The use of accrual accounting to value grain and livestock inventories
  - b. The valuation of stock options for the owner/operator
  - c. The valuation of breeding livestock retained from the herd
  - d. Both a and c