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Inventories and Depreciation Accounts

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INVENTORIES AND DEPRECIATION ACCOUNTS

by

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I. INVENTORIES

Inventories are an essential part of a farm record. Taken at the beginning and end of the year, they show whether one has been increasing or decreasing the amount of livestock, grain, feed, and supplies on hand. An increase in inventory represents income, even tho it is not in the form of dollars and cents. A decrease in inventory means that some of the livestock, grain, etc., produced in previous years has been sold or used. Since this was not produced during thecurrent year, it should be considered an expense and deducted from the gross income as such.

Blanks for taking inventories at the beginning and end of the year are included in this circular. A good plan is to use the farm price or what you think the livestock, feed, etc., would bring at an auction sale. Another plan is to use the market price less the cost of marketing. If one uses fairly constant values for such property as work horses and dairy cows which he keeps on the farm year after year, his farm business statement will reflect his actual year's operations rather than changes in the price level of stock and feed on hand.

II. DEPRECIATION ACCOUNTS

Depreciation on farm property and farm machinery is an attempt to charge off as expense each year the wear and tear on buildings and machinery. The per cent of depreciation that is charged depends upon the useful life of the building or machine. For instance, if a wagon lasts 20 years, then 5 per cent of the original cost is charged off each year.

I. The Old Method.

The old method of figuring depreciation is to make a list of the farm buildings (not including dwelling) and a list of the farm machinery, using estimated present values. Then charge off as depreciation 5 per cent of the value of the buildings and 10 per cent of the value of the machinery. This method is not very exact and gives a lower depreciation charge than one is entitled to claim under the income tax law. However, it is simple and easy to figure and many people prefer to use it.

2. The New Method.

While the following method is new as regards farming, it has been in use in other industries for many years. It gives the actual depreciation as closely as it can be figured and is the form to use in making income tax returns. This method is used in the State College farm account book and is recommended for general use.

There are 7 columns in the "Depreciation Account of Farm Property" in the farm account book and in the copy of that page which is included in this circular. In the first column one enters the year the building was purchased or built. In the second column put down the original cost of the building plus the cost of new improvements made during the year. The value of these improvements is added to the original cost in figuring depreciation in succeeding years. Enter here only improvements that lengthen the life of the building for more than one year. Minor improvements may be listed as "repairs on permanent improvements". In column 4 put down the estimated rate or per cent of depreciation (4 per cent is a fair rate on frame buildings). In column 5 enter the depreciation for the current (taxable) year. For instance, if a barn cost $2000 and 4 per cent depreciation is claimed, the depreciation for the current year is $80. The total of all items in column 5 is the amount which is charged off as depreciation in making the Farm Business Summary at the end of year.

After one has charged off as depreciation the total cost of a building plus the cost of new improvements made upon it, the building may still be serviceable and useful, but it would be unfair to continue charging depreciation upon it. In column 6 we enter the amount of depreciation sustained up to the beginning of the current (taxable) year. For example, if the barn cited above were built in 1916 and $80 depreciation was claimed each year for the 7 years up to 1923, we would have $560 in column 6. To get the figure for column 7 we add column 5 and 6. This gives the total depreciation up to the end of the current or taxable year. When this amount, which would be $560 plus $80 or $640 in our example, equals the original cost plus the cost of new improvements as shown in column 2, then one has to quit charging depreciation on that particular building.

The method of figuring depreciation on farm machinery is similar to that for farm property except that new improvements (repairs) are not added to the original cost, but are charged off as expense in the year in which they are made. A special page for machinery expense is included in the State College farm account book.

The following blanks will be useful for taking inventories and depreciation accounts. The figures should later be transferred to a farm account book.

I N V E N T O R Y O F L I V E S T O C K

Use farm price method of inventorying livestock, which is a fair market price less the cost of marketing.

Names or Number of Animals	Beginning of Year: Number	Beginning of Year: Value	End of Year: Number	End of Year: Value
Cows				
Hiefers				
Yearlings				
Calves				
Steers				
Bulls				
Market Hogs				
Pigs				
Breeding Stock				
Horses				
Colts				
Sheep				
Poultry				
Total Livestock				

INVENTORY OF FEED, SEEDS AND SUPPLIES

Use farm price method of inventorying, which is a fair market price less cost of marketing.

Item	On hand beginning of yr.			On hand at end of yr.		
	No. or quanity	Price	Value	No. or quanity	Price	Value
Corn						
Wheat						
Oats						
Rye						
Barley						
Flax						
Hay						
Alfalfa						
Clover						
Native						
Silage						
Fodder						
Straw						
Oil Meal						
Tankage						
Bran						
Shorts						
Potatoes						
Seed Corn						
Other Seeds						
TOTAL						

DEPRECIATION ACCOUNTS OF FARM PROPERTY AND FARM MACHINERY

Kind of Property	Date Acquired	Original Cost Plus cost of New Improvements up to beginning of Taxable year	Total Cost of New Improvements Made During Taxable Year	Rate of Depreciation	Amount of Depreciation Claimed for Taxable Year	Depreciation Sustained prior to Taxable Year	Total Depreciation Sustained to End of Taxable Year
Barn							
Silo							
Corn Crib							
Granary							
Hog House							
Hen House							
Machine Shet							
Fencing							
Tiling							
Open Ditches							
Wagon			#				
Buggies							
Automobile							
Cutter							
Sled							
Walking Plow							
Gang Plow							
Sulky Plow							
Disc Harrow							

Total Cost of New Machinery Purchased During Taxable Year

DEPRECIATION ACCOUNT OF FARM MACHINERY, CONTINUED

KIND OF PROPERTY	Date Acquired	Original cost of implement or machine	Total cost of New Machinery Purchased during Taxable Year	Rate of Depreciation	Amount of Depreciation claimed for Taxable Year	Depreciation Sustained Prior to Taxable Year	Total Depreciation Sustained to End of Taxable Year
Spike-tooth Harrow							
Corn Planter							
I-row Cultivator							
2-row Cultivator							
Corn Binder							
Grain Binder							
Grain Drill							
Mower							
Hay Rake							
Stacking Outfit							
Manure Spreader							
Gasoline Engine							
Tractor							
Tractor Equipment							
Double Harness							
Hog Equipment							
Cream Separator							
Other tools							