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October 1968

A.E. Ext. 518

TEACHING GUIDE FOR ESTIMATING TAXABLE INCOME
USING CORNELL ELECTRONIC ACCOUNTING REPORTS

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TEACHING GUIDE FOR ESTIMATING TAXABLE INCOME
USING CORNELL ELECTRONIC ACCOUNTING REPORTS

Introduction

The Cornell Electronic Accounting System provides much data for each cooperator. Many cooperators are not aware of all the various ways to use the information they receive. Tax management which involves estimating taxable income is one important use that can be made of electronic accounting reports.

Tax management is an important part of operating a commercial farm business for profit. Every farmer has some flexibility in management of his income and expenses and he may use this flexibility to even out his taxable income from year to year. Most tax management decisions must be made before the end of the year while there is time enough remaining to make needed adjustments. No wise tax management decision can be made until the current year's taxable income has been estimated. Estimating taxable income before the end of the year can also be helpful in making other important management decisions.

This teaching guide has been developed for cooperative extension agents, and others to use in working with electronic accounting cooperators. The guide can be used with groups or individual cooperators. It is designed to help them get the information they need for making year-end tax management and related decisions.

Tax management meetings should be held for small groups of electronic accounting cooperators in November or December after they have received their October electronic report. The objective of the meeting is to teach each cooperator how to use the electronic record to estimate taxable income and to make tax management decisions. Current editions of Teaching Manual, Farm Income Tax Management and Tax Reporting and Farmers Tax Guide will serve as excellent references at tax management meetings.

The Electronic Account Income Tax Estimate Form -- Cash Basis, should be distributed to each cooperator receiving instruction. Each farmer will need to have his electronic account reports for the current year for reference. A.E. Ext. 482, Year-End Farm Income Tax Management may also be used as handout material. The tax estimate form in the back of A.E. Ext. 482 is designed for standard farm record books.

The effectiveness of the meeting will greatly depend upon the amount of planning and preparation carried out by the instructor. He should be completely familiar with the electronic accounting record and data reporting procedures. The teaching guide must be reviewed and understood prior to the meeting. The guide can serve as an outline to follow in presenting the lesson. It is not a script. The teaching guide and materials have been developed to help the farmer who is using only the Cash Method of income tax reporting.

Teaching Guide

This guide contains instructions on what part of the electronic report to use in finding the data, how it is labeled in the report, how it should be interpreted, and where to record the data on the estimate form. The guide includes a section on Non-Capital Receipts, Capital Receipts, Non-Farm Income, Expenses, and Open Account Balances. Receipt and expense items are recorded in the same order as they appear on the electronic report.

Reference and Comments

Record on Estimate
Form Col. 1

NON-CAPITAL RECEIPTS

Monthly Summary Statement, this year to date col.

Eggs	line 1
Milk & Products	line 2
Livestock & Poultry	line 3
Crops	line 4
Other	line 5

A closer check on non-capital livestock receipts is suggested. Turn to TRCD 11, Total Dairy Cows 0699 in operating statement. This total should only include cows held for resale, (0601 & 0603). The same check should be applied to TRCD 11, Total Dairy Bulls 0799; Total Dairy Heifers 0899, and Total Other Livestock 1499.

Other non-capital income entered on line 5 could include some large receipt items such as Custom Work 2399, Resale Items 2499, and Govt. Payments - subtotal 5251. A review of these and other non-cap receipt transactions now, will be very helpful. The farmer may wish to itemize large items. The review may also reveal questionable entries.

Reference and Comments

Record on Estimate
Form Col. 1

CAPITAL RECEIPTS

Operating Statement, TRCD 12

Subtotal 0602, cows raised for dairy or breeding purposes, follow instructions in work and reference col.	line 6
Subtotals 0604 and 0605, purchased cows sold combine for estimation purposes only and follow instructions in work col.	line 7
Follow same procedure for bulls, category 07; dairy heifers, category 08, and other livestock, category 14	lines 6 & 7
Total Real Est. Bldg. Impts. 2599, calculate gain and enter	line 8
Total Equipment - Field 2799 and Total Equipment - Not Field 2899. Calculate gains and enter (Question if actual sale or trade)	line 9

Ask if there are questionable TRCD 12 entries or if the farmer has omitted any capital receipt transactions.

NON-FARM INCOME

Operation Statement, TRCD 41

Total Non-Farm Income 6299	line 10
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You may wish to itemize large subtotals such as wages and salaries 6201, and Rental Inc. Non FM 6205.

Fill in Columns 2 & 3 and Calculate Total Income at Bottom of Estimate Form, Pg. 1.

Reference and Comments

Record on Estimate
Form Col. 1

EXPENSES

Monthly Summary, this year to date

Operating Expenses:

Livestock and Poultry	line 11
Machine Hire	line 12
Labor, Regular and Non Wage	line 13
Feed Concentrate	line 14
Feed Non-Concentrate	line 15
Dairy, Poultry and Livestock Exp.	line 16
Fertilizer and Lime	line 17
Seeds and Plants	line 18
Spray and Other Crop	line 19
Equipment Rep. & Sm. Tools	line 20
Gas, Oil & Grease Farm	line 21
Land, Bldgs. & Fence Rep.	line 22
Interest	line 23
Farm & Home (enter total to left of col. 1. Calculate farm share later)	line 24
Miscellaneous	line 25

A closer check on non-capital livestock purchased is suggested. Turn to TRCD 21 and review the dairy cow and livestock subtotals. Non-cap. livestock purchases are those bought for resale, item codes 0603, 0703, 0803 and 1499. (Livestock breeders could use category 14 for capital purchases).

Some expense items eligible for capital treatment may be included in the above totals. These include: certain types of MACHINE HIRE, in some cases LIME, and major overhauling under EQUIP. REP. & SM. TOOLS.

Major additions, alterations and improvements to Real Estate are considered capital expenses and are not recorded as LAND, BLDGS. & FENCE REP. Some will be marginal and the farmer will have to decide how to handle them.

INTEREST on accounts payable may not be recorded until the end of the year, therefore, the total year's interest expense may have to be estimated at this time.

FARM & HOME includes expense items that are partly Farm and partly non-Farm. For estimation purposes apply a conservative farm allocation percentage to the total. It may be helpful to refer to the operating statement, TRCD 21, category 51, so major expense items within FARM & HOME can be used to weight the allocation percentage selected. An alternative is to take the farm share of each item and total them for line 24, col. 1.

Reference and Comments

Record on Estimate
Form Col. 1

EXPENSES

Monthly Summary, this year to date

MISCELLANEOUS may appear unusually high because it could include Eggs, Crops and Resale Items purchased. Farm Taxes and Insurance could also be included. Further itemizing may be wise if miscellaneous expenses are large.

Ask for questions concerning any other TRCD 21 entries.

Total Operating Expenses, Farm Share, on Page 2 Col. 1, will not correspond to total operating expenses on your Monthly Summary Statement.

Operating Statement, TRCD 22, Capital Expenses

Explain how to use category and detail codes to identify individual transactions so they can be recorded on the farmers depreciation schedule. Some items such as TILE 2531 and small equipment may qualify for non-capital expenses. The farmer must decide where to report this type of transaction.

Enter tax deductible expenses from other businesses line 26

Fill in Cols. 2 & 3 and Calculate Total Expenses on Pg. 2 of Estimate Form

Estimate depreciation at bottom of Expense Table. Use last year's actual depreciation plus or minus major changes.

OPEN ACCOUNT BALANCES

Page 3 of the Estimate Form is provided for farmers who are not keeping strict cash basis records and who have open accounts that vary significantly from the beginning to the end of year. Find beginning balances in the January operating statement (or in month when beginning balance was entered), TRCD 34. The end or current balance is on the credit account summary page of this months report.

Calculate Estimated Taxable Income at the Bottom of Page 3 of the Estimate Form

When this exercise has been completed the farmer will be ready to consider possible adjustments that he may use to manage his taxable income. Refer to A.E. Ext. 482, Year End Farm Income Tax Management for information and examples to present at your meeting.

ELECTRONIC ACCOUNTING INCOME TAX ESTIMATE FORM
CASH BASIS

Actual and Planned Receipts for 19

Line	Work and Reference Col. monthly summary statement	Col. 1 Amounts to Date Jan. to	Col. 2 Estimate For Rest of Year	Col. 3 Estimated Years Total
	<u>Non Capital Items</u>			
1	Eggs Sold	\$ _____	\$ _____	\$ _____
2	Dairy Products	_____	_____	_____
3	Livstk. & Poultry Sold	_____	_____	_____
4	Crops Sold	_____	_____	_____
5	Other Farm Inc.	_____	_____	_____
	<u>Capital Items</u>			
6	Sale of livstk. raised for dairy or brd.	_____	_____	_____
7	Gain on sale of pur. livestock	tot. \$ _____ ÷ 2 = _____	_____	_____
8	Gain on sale of Real Estate	tot. _____, less undep. balance = \$ _____ ÷ 2 = _____	_____	_____
9	Gain on sale of machinery	tot. _____ less undep. balance = _____	_____	_____
	TOTAL FARM INCOME	_____	_____	_____
10	Non Farm Income	_____	_____	_____
	TOTAL INCOME	_____	_____	_____

TRCD 11, item CD 6299

Actual and Planned Farm Expenses for 19

Line No.	(All Farm Expenses Come From Summary Statement)	Col. 1 Amounts to Date January to	Col. 2 Estimated Rest of Year	Col. 3 Estimated Years Total
11	Livestock & Poultry Bought			
12	Machine Hire			
13	Labor Reg. & Non-Wage			
14	Feed Concentrate			
15	Feed Non-Concentrate			
16	Dairy Poultry & Livstk. Exp.			
17	Fertilizer & Lime			
18	Seeds and Plants			
19	Spray and Other Crop Exp.			
20	Equip. Rep. & Sm. Tools			
21	Gas, Oil & Grease, Farm			
22	Land, Bldg. & Fence Rep.			
23	Interest, Farm			
24	Farm & Home, Tot.	fs	fs	fs
25	Miscellaneous, Farm			
	TOTAL OPERATING EXPENSES	fs		
	Non-Farm Business Exp.			
	TOTAL OPERATING EXPENSES			
26	Depreciation			
	Last years actual dep.	\$	\$	\$
			plus	=
			new	\$
			dep.	
			lost	

Open Account Balance Sheet and Summary for 19

<u>Open Accts. Payable</u>	<u>1/1/ Balance</u>	<u>1/1/ Balance</u>	<u>End Balance from Beginning Bal. (1/1)</u>
\$ _____	\$ _____	\$ _____	\$ _____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

* Subtract

* If minus, subtract from appropriate operating expense category

If plus, add to appropriate operating expense category

- A. Total Receipts (Page 1) _____
- B. Total Expenses Plus Depreciation (Page 2) _____
- C. (Line A - Line B) NET FARM PROFIT _____
- D. 10% Line C - (10% standard deduction) _____
- E. (Line C - Line D) FARM INCOME less standard deduction _____
- F. Total Personal Exemptions _____
 \$600 x _____ exemptions
- G. (Line E - Line F) Estimated Taxable Income _____



FARM BUSINESS MANAGEMENT

ELECTRONIC ACCOUNTING INCOME TAX ESTIMATE FORM

CASH BASIS

To Be Used In Conjunction With A.E. Ext. 518

Teaching Guide For Estimating Taxable Income

Using the Cornell Electronic Accounting Report

Department of Agricultural Economics
Cornell University Agricultural Experiment Station
New York State College of Agriculture
A Statutory College of the State University
Cornell University, Ithaca, New York

ELECTRONIC ACCOUNTING INCOME TAX ESTIMATE FORM
CASH BASIS

Actual and Planned Receipts for 19

Line	Work and Reference Col. monthly summary statement	Col. 1 Amounts to Date Jan. to	Col. 2 Estimate For Rest of Year	Col. 3 Estimated Years Total
	<u>Non Capital Items</u>			
1	Eggs Sold	\$	\$	\$
2	Dairy Products			
3	Livstk. & Poultry Sold			
4	Crops Sold			
5	Other Farm Inc.			
	<u>Capital Items</u>			
6	Sale of livstk. raised for dairy or brd.	monthly op. statement TRCD 12		
7	Gain on sale of pur. livestock	tot. \$ _____ ÷ 2 =		
8	Gain on sale of Real Estate	tot. _____, less undep. balance = \$ _____ ÷ 2 =		
9	Gain on sale of machinery	tot. _____, less undep. balance =		
	TOTAL FARM INCOME			
10	Non Farm Income	TRCD 11, item CD 6299		
	TOTAL INCOME			

Actual and Planned Farm Expenses for 19

Line No.	(All Farm Expenses Come From Summary Statement)	Col. 1 Amounts to Date January to	Col. 2 Estimated Rest of Year	Col. 3 Estimated Years Total
11	Livestock & Poultry Bought			
12	Machine Hire			
13	Labor Reg. & Non-Wage			
14	Feed Concentrate			
15	Feed Non-Concentrate			
16	Dairy Poultry & Livstk. Exp.			
17	Fertilizer & Lime			
18	Seeds and Plants			
19	Spray and Other Crop Exp.			
20	Equip. Rep. & Sm. Tools			
21	Gas, Oil & Grease, Farm			
22	Land, Bldg. & Fence Rep.			
23	Interest, Farm			
24	Farm & Home, Tot.	fs	fs	fs
25	Miscellaneous, Farm			
	TOTAL OPERATING EXPENSES	fs		
26	Non-Farm Business Exp.			
	TOTAL OPERATING EXPENSES			
	Depreciation			
	Last years actual dep.	\$	\$	\$
	less dep. lost			
	plus new dep.			

Open Account Balance Sheet and Summary for 19

<u>Open Accts. Payable</u>	<u>1/1/ Balance</u>	<u>1/1/ Balance</u>	* Subtract End Balance from Beginning Bal. (1/1)
\$ _____	\$ _____	\$ _____	\$ _____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

* If minus, subtract from appropriate operating expense category

If plus, add to appropriate operating expense category

- A. Total Receipts (Page 1). _____
- B. Total Expenses Plus Depreciation (Page 2). _____
- C. (Line A - Line B) NET FARM PROFIT _____
- D. 10% Line C - (10% standard deduction) _____
- E. (Line C - Line D) FARM INCOME less standard deduction _____
- F. Total Personal Exemptions _____
 \$600 x _____ exemptions _____
- G. (Line E - Line F) Estimated Taxable Income _____

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<u>Reference and Comments</u>	<u>Record on Estimate Form Col. 1</u>
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NON-CAPITAL RECEIPTS

Monthly Summary Statement, this year to date column

Eggs	Line 1
Milk & Products	Line 2
Livestock & Poultry	Line 3
Crops	Line 4
Other	Line 5

A closer check on non-capital livestock receipts is suggested. Turn to TRCD 11, Total Dairy Cows 0699 in operating statement. This total should only include cows held for resale, (0601 & 0603).^{1/} The same check should be applied to TRCD 11, Total Dairy Bulls, 0799; Total Dairy Heifers 0899, and Total Other Livestock 1499. TRCD 11, Total Bob Calves 0999, is a major non-capital income receipt item that all dairymen should have.

Other non-capital income entered on line 5 could include some large receipt items such as Custom Work 2399, Resale Items 2499, and Government Payments - subtotal 5251. A review of these and other non-capital receipt transactions now, will be very helpful. The farmer may wish to itemize large items. The review may also reveal questionable entries.

^{1/} The correct IRS procedure for reporting the purchase and sale of resale items, including cattle bought for resale, is to report the cost when the item is sold and report the difference between the cost and sales price as the net receipt (See part II of Schedule F in the Farmers' Tax Guide).

Reference and Comments

Record on Estimate
Form Col. 1

CAPITAL RECEIPTS

Operating Statement, TRCD 12

Subtotal 0602, cows raised for dairy or breeding purposes, follow instructions in work and reference col.	line 6
Subtotals 0604 and 0605, purchased cows sold combine for estimation purposes only and follow instructions in work col.	line 7
Follow same procedure for bulls, category 07; dairy heifers, category 08, and other livestock, category 14	lines 6 & 7
Total Real Est. Bldg. Impts. 2599, calculate gain and enter	line 8
Total Equipment - Field 2799 and Total Equipment - Not Field 2899. Calculate gains and enter (Question if actual sale or trade)	line 9

Ask if there are questionable TRCD 12 entries or if the farmer has omitted any capital receipt transactions.

NON-FARM INCOME

Operation Statement, TRCD 41

Total Non-Farm Income 6299	line 10
----------------------------	---------

You may wish to itemize large subtotals such as wages and salaries 6201, and Rental Inc. Non FM 6205.

Fill in Columns 2 & 3 and Calculate Total Income at Bottom of Estimate Form, Pg. 1.

Reference and Comments

Record on Estimates

Form Col. 1

EXPENSES

Monthly Summary, this year to date

Operating Expenses:

Livestock and Poultry	Line 11
Machine Hire	Line 12
Labor, Regular and Non-Wage	Line 13
Feed Concentrate	Line 14
Feed Non-Concentrate	Line 15
Dairy, Poultry and Livestock Exp.	Line 16
Fertilizer and Lime	Line 17
Seeds and Plants	Line 18
Spray and Other Crop	Line 19
Equipment Rep. & Sm. Tools	Line 20
Gas, Oil and Grease Farm	Line 21
Land, Buildings, & Fence Rep.	Line 22
Interest	Line 23
Farm & Home (enter total to left of Column 1, calculate farm share later)	Line 24
Miscellaneous	Line 25

A closer check on non-capital livestock purchased is suggested. Turn to TRCD 21 and review the dairy cow and livestock subtotals. Non-capital livestock purchases are those bought for resale, item codes 0603, 0703, 0803, and 1499. (Livestock breeders could use category 14 for capital purchases).

Some expense items eligible for capital treatment may be included in the above totals. These include: certain types of MACHINE HIRE, in some cases LIME, and major overhauling under EQUIP. REP. & SM TOOLS.

Major additions, alterations and improvements to Real Estate are considered capital expenses and are not recorded as LAND, BLDGS, & FENCE REP. Some will be marginal and the farmer will have to decide how to handle them.

If INTEREST on accounts payable is not recorded until the end of the year, the total year's interest expense will have to be estimated at this time.

FARM & HOME includes expense items that are partly Farm and partly Non-Farm. For estimation purposes apply a conservative farm allocation percentage to the total. It may be helpful to refer to the operating statement, TRCD 21, category 51, so major expense items within FARM & HOME can be used to weight the allocation percentage selected. An alternative is to take the farm share of each item and total them for line 24, column 1.

Reference and Comments

Record on Estimate
Form Col. 1

EXPENSES

Monthly Summary, this year to date

MISCELLANEOUS may appear unusually high because it could include Eggs, Crops and Resale Items purchased. Farm Taxes and Insurance could also be included. Further itemizing may be wise if miscellaneous expenses are large. 1/

Ask for questions concerning any other TRCD 21 entries.

Total Operating Expenses, Farm Share, on Page 2 Col. 1, will not correspond to total operating expenses on your Monthly Summary Statement.

Operating Statement, TRCD 22, Capital Expenses

Explain how to use category and detail codes to identify individual transactions so they can be recorded on the farmers depreciation schedule. Some items such as TILE 2531 and small equipment may qualify for non-capital expenses. The farmer must decide where to report this type of transaction.

Enter tax deductible expenses from other businesses line 26
Do not include Tax deductible family expenses, item code 6399.

Fill in Cols. 2 & 3 and Calculate Total Expenses on
Pg. 2 of Estimate Form

Estimate depreciation at bottom of Expense Table.
Use last year's actual depreciation plus or minus major changes.

1/ The total Miscellaneous expense on the Monthly Summary page may also include miscoded expenses that probably belong under Capital Expenditures, TRCD 22, such as machinery and real estate.

If the Miscellaneous Expense total on the Monthly Summary page is not equal to total Miscellaneous expense in the Operating Statement, check the Operating Statement for unusual expense items and incorrectly coded entries

OPEN ACCOUNT BALANCES

Page 3 of the Estimate Form is provided for farmers who are not keeping strict cash basis records and who have open accounts that vary significantly from the beginning to the end of year.¹ Find beginning balances in the January operating statement (or in month when beginning balance was entered), TRCD 34. The end or current balance is on the credit account summary page of this months report.

Calculate Estimated Taxable Income at the Bottom of Page 3 of the Estimate Form

When this exercise has been completed the farmer will be ready to consider possible adjustments that he may use to manage his taxable income. Refer to A.E. Ext. 482, Year End Farm Income Tax Management for information and examples to present at your meeting.

^{1/} Open accounts that affect the cash basis tax return are those involving operating expenses that would ordinarily be claimed on Schedule F. They would include open accounts with the feed dealer, machinery repair service, and veterinarian. Capital accounts should not be included. Open accounts involving capital purchases should not be included.

ELECTRONIC ACCOUNTING INCOME TAX ESTIMATE FORM
CASH BASIS

Actual and Planned Receipts for 19

Line	Non-Capital Items	Work and Reference Column Monthly Summary Stmt.	Column One Amounts to Date January to	Column Two Estimate For Rest of Year	Column Three Estimated Years Total
1	Eggs Sold		\$	\$	\$
2	Dairy Products				
3	Livstk, & Poultry, Sld.				
4	Crops Sold				
5	Other Farm Income				
<hr/>					
	Capital Items	Monthly op. statement TRCD 12			
6	Sale of Livstk. raised for dairy or breed	tot. \$; 2 =			
7	Gain on sale of pur. livestock	tot. , less undep. balance = \$; 2 =			
8	Gain on Sale of Real Estate	tot. , less undep. balance = \$; 2 =			
9	Gain on sale of Machinery	tot. less undep. balance =			
<hr/>					
TOTAL FARM INCOME					
10	Non-Farm Income	TRCD 41, item CD 6299			
<hr/>					
TOTAL INCOME					

Actual and Planned Farm Expenses for 19

<u>Line Number</u>	<u>(All Farm Expenses Come from Summary Statement)</u>	<u>Column One</u> <u>Amounts to Date</u> <u>January to</u>	<u>Column Two</u> <u>Estimated</u> <u>Rest of Year</u>	<u>Column Three</u> <u>Estimated</u> <u>Years Total</u>
11	Livestock & Poultry Bought			
12	Machine Hire			
13	Labor Reg. & Non-Wage			
14	Feed Concentrate			
15	Feed Non-Concentrate			
16	Dairy Poultry & Livstk. Exp.			
17	Fertilizer & Lime			
18	Seeds and Plants			
19	Spray and Other Crop Exp.			
20	Equip. Rep. & Small Tools			
21	Gas, Oil & Grease, Farm			
22	Land, Bldg. & Fence Rep.			
23	Interest, Farm			
24	Farm & Home, Tot.	fs	fs	fs
25	Miscellaneous, Farm			
	TOTAL OPERATING EXPENSES			
26	Non-Farm Business Exp.			
	TOTAL OPERATING EXPENSES			
	<u>Depreciation</u>			
	Last year's actual dep.	\$	less \$	\$
			dep. lost	plus \$
				new dep. \$

Open Account Balance Sheet and Summary for 19

<u>Open Accounts Payable</u>	<u>1-1- Balance</u>	<u>1-1- Balance</u>	<u>End Balance from Beginning Balance (1-1-)</u>	<u>*Subtract from Beginning Balance (1-1)</u>
\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____

*If minus, subtract from appropriate operating expense category.

If plus, add to appropriate operating expense category.

- A. Total Receipts (Page 1). _____
- B. Total Expenses Plus Depreciation (Page 2). _____
- C. (Line A - Line B) NET FARM PROFIT _____
- D. 10% of Line C - (10% standard deduction). _____
- E. (Line C - Line D) FARM INCOME less standard deductions. _____
- F. Total Personal Exemptions
 \$600 x _____ exemptions _____
- G. (Line E - Line F) Estimated Taxable Income _____