



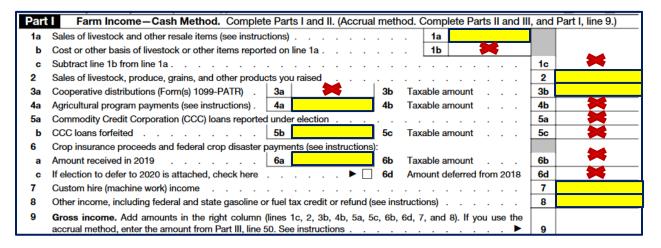
How Schedule F Income is Determined in FINPACK

May 2020

FINPACK uses IRS Schedule F data in two analysis tools: 1) it is used to generate an accrual adjusted income statement in the Schedule F Cash to Accrual tool; 2) it can be used to calculate the cash based debt coverage measure that appears at the bottom of the Schedule F data entry in Tax Forms. Several items on the Schedule F have both total and taxable entries. FINPACK tech support is often asked which entries FINPACK uses in its analysis tools.

Schedule F Cash to Accrual

The Sch F Cash to Accrual builds the cash portion of the income statement from the Schedule F entries. In general, the total entries are used rather than the taxable entries in order to capture the total cash income for the year.



- Line 1 Sale of livestock and other resale items FINPACK uses line 1a to capture the gross sale of feeder livestock and other resale items. Because FINPACK captures inventory change from the balance sheets, line 1b is not used and the actual cash expenditure for resale items must be entered in *Feeder Livestock Purchases* in Cash to Accrual Data Entry.
- Line 3 Cooperative distribution This is the exception to the rule FINPACK uses the taxable amount on line 3b. Some tax preparers include grain sales reported on forms 1099-PATRr on line

3a but exclude them on 3b and report them on 2a instead. To avoid double counting this income, FINACK uses the taxable amount, line 3b. If the difference between 3a and 3b is material and it is determined that the difference is not included elsewhere on the Schedule F, it should be added in "Other income (not on the Schedule F)" in Schedule F Cash to Accrual data entry.

- Line 4 Agriculture program payments FINPACK uses 4a, total payments, rather than the taxable amount.
- Line 5 CCC loans FINPACK always treats CCC loans as loans and not as income in the year borrowed, so line 5a is excluded. Crops under loan are not included in income until they are sold and the loan is repaid, at which time the income should come from lines 1a, 2, or 3. See "Handling CCC Loans as Income in Sch F Cash to Accrual" in the FINPACK Knowledge Base for more information. Line 5b, Loans Forfeited, is included as income. This will not cause a cash discrepancy because it will offset against the reduction in loan principal.
- Line 6 Crop insurance FINPACK uses line 6a, total crop insurance proceeds received. The taxable amount might be less if some proceeds were deferred until the following year for tax purposes. Line 6d, amount deferred from the previous year is excluded because was cash income in the previous year.

Tax Forms - Schedule F Debt Coverage

In Tax Forms – Schedule F, the *Cash available for debt service* begins with Net Farm Profit of Loss from the Schedule F. Adjustments to arrive at the accurate cash income are made in *Other non-taxable income*:

- Agricultural program payments difference between line 4a and 4b is added;
- Crop insurance proceeds difference between line 6a and 6b is added; the amount on line 6d is subtracted because it was cash income in the previous year.

Cash Flow for Debt Service				
Net farm profit or loss	301,302	427,299	125,145	-87,148
+ Other non-taxable income				83,191
+ Depreciation	143,457	167,262	103,002	79,827
+ Interest (total)	96,928	114,481	99,321	94,131
- Interest on current debt	46,266	40,940	33,007	31,462
- Non-recurring income				
+ Non-recuring expense				
= Cash available for debt service	495,421	668,102	294,461	138,539

Again, any difference between line 3a and 3b should be explained (see Cooperative Dividends above). If the difference is material and it is not included in income elsewhere, an adjustment should be made. The workaround is to include it as **negative** "*Non-recurring income*."