B. FINANCIAL RECORD

These records are concerned with the financial aspects of the operation of a farm business. These records include: 1) Farm Inventory; and 2) Farm financial or cash Accounts.

1. Farm Inventory

An inventory is a list of all physical and financial items owned by the farmer at a given point of time. It includes personal property such as livestock, machinery, bank balances etc and real property such as land and buildings. To be more useful, the inventory must be in monetary terms. Therefore, an inventory consists of two parts, i.e., the physical count and the valuation.

Inventory changes provide a sound basis for farm business planning. It shows how much money is tied up in each enterprise. It also indicates how the financial position of the farmer has changed during the year by determining the difference between the closing and beginning inventories. Change in inventories may both be in depreciable and non-depreciable assets. The wear, tear and obsolescence of capital item causes a decrease in value and is called depreciations.

In Pakistan, animals of substantial value are on hand at the beginning and end of the year at almost each farm. For determining the true profit for the year, an inventory is prepared which indicates the number and value of each kind of asset. Taking the inventories, involves counting the number of asset and this itself provides useful information. Method of valuation of each type of asset should be consistent over time. This value must be the same from year to year in order to avoid unrealized profits or losses due to changes in valuation. An inventory valuation proforma can be used to asses the changes in inventory (Table 5.22).

Table 5.22 Inventory Valuation Performa

Type of livestock	Inventory at the beginning of the year		Inventory at the end of the year	
	Number	Value (Rs)	Number	Value (Rs)
Buffalo:				
Buffalo				
Heifers				
Young stock				
Male				
Female				
Cattle:				
Cow				
Heifers				
Youngstock				
Male				
Female				
Bullock				
Sheep.				
Goat				
Donkey				
Horses				
Camel				
Poultry				

There are several methods of valuation. Every method has its own advantages and disadvantages. The choice of valuation method depends on the nature of asset and the purpose of valuation. Which ever method of valuation is used, the accounting concepts of conservation and consistency must be taken into account. Conservation stresses against placing high value on an asset, while consistency implies using the same valuation method over time. Comparative financial statements can be obtained for various years by using these concepts. Most commonly used valuaion methods are:

i) net market price; ii) cost; iii) lower of cost or market price;iv) farm production cost; v) Cost less depreciation; and vi) income capitalization.

i) Net Market Price

An asset is valued at the net market price which is estimated by subtracting the marketing charges such as transportation, octroi charges, commission agent fee etc from the market price. This method can be applied to crops and livestock enterprises. However, it has little usefulness for other assets like buildings and farm machinery.

ii) Cost

In this method, valuation is made at the cost at which an item was purchased. This method is useful for recently purchased items. Items like fertilizer, feed, pesticides, seed etc. can be valued at the original cost. Land can also be valued in this way. Assets like buildings and machinery which lose their value over time due to depreciation should not be valued using

this method. Similarly, livestock and crops produced on the farm should not be valued using this method since they have no purchase price.

iii) Lower of Cost or Market price

This method involves valuation of an asset using net market price or its cost and be chosen whichever has the lower value. This method makes use of conservative concept as it reduces the chance of using too high value on an asset. Use of this method eliminates any increase in inventory value resulting solely from inflation.

iv) Farm Production Cost

Items produced on the farm and still on hand can be valued at the level of their farm production cost. The actual cost of production of an item should not include profit associated with its production. This method can be used for the valuation of fodder produced on the farm. However, it should not be used for the valuation of the standing crops, as weather conditions can drastically change the value of crop.

v) Cost Less Depreciation

Items which can be used overtime and lose their value due to age, use or obsolescence should be valued at the original cost less depreciation. This method is suitable for valuation of machinery, buildings and purchased breeding livestock. At the end of each year, value of the item is reduced by the amount of depreciation for that year. The value in the current time period

is obtained by subtracting the total accumulated depreciation (from the date of purchase) from the original cost.

vi) Income Capitalization

This method is appropriate for items like land which have a long life and their contribution to the income of the farm business can be measured. Following formula can be used for this purpose.

$$V = \frac{R}{i}$$

Where;

V = the value of an asset in rupees,

R = the constant flow of income over an infinite period and

i = the rate of interest.

As the interest rate and the annual income flow are not known with certainty, therefore, this method is used in combination with other methods like market price.