

Designing Income Statements for Farms: A Case Study in Turkey

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Abstract: The form and the aim of the income statement known as a basic financial statement is determined in the unified accounting system. Farms keeping balanced books are obliged to prepare their income statements in the form of the unified accounting system. Income statements are arranged to give opportunity to all types of analyses is important for farms to operate profitably. In this study, firstly, information about income statements is given and some elements of the income statement are explained. Then an income statement suitable to the unified accounting system has been arranged using the data from a sample farm.

Key words: Income statement, unified accounting system, accounting standard, financial statement

INTRODUCTION

The preparation of business plans is of great importance for farm production. Planning is one of the most important conditions of successful business administration. The first level of planning requires the determining of the present situation and the analyzing of the business. In business analysis, the analysis of financial statements is of great importance, along with land use, the population and labor, education and production techniques used. Therefore, the financial statements of farms should be prepared accurately. The income statement is one of the most important methods of analyzing the results of farm operations.

Although there is some evidence of progress towards standardization in income statement content and presentation, there are still wide differences among both countries and companies. For example, in the UK, companies can choose from four different formats^[1].

In Turkey, the Unified Accounting System, which became effective in 1994 with General Notification for Application of the Accounting System, introduced standards in preparation of financial statements. Farms keeping books in balance bases, must obey those standards in their income statements. Although there are some studies on the arrangement of income statements in business enterprises in Turkey, those related to the farming sector are limited in number.

MATERIALS AND METHODS

The material for the research consisted of the data from a sample farm and the current accountancy and taxation legislation. Moreover, the literature of the related subject has been used. The income statement of a sample

farm has been prepared according to the uniform accounting system and the income tax law. In completing the income statement, the data were collected through a questionnaire from a farm in the Kızılot village of Çarşamba-Samsun. Questionnaire data from the year 2004 were used.

RESULTS AND DISCUSSION

The Design of the Income Statement: The income statement is a financial statement that shows the income that a business has obtained in a specific period, the costs and expenses incurred for the purpose of getting that income and the net profit or loss; after the summing of these factors^[2]. Briefly, it is a summary of income and expenses in a given accounting period. It is sometimes called an operating statement or a profit and loss statement. Its purpose is to measure the difference between revenue and expenses. A positive difference indicates a profit and a negative value indicates a loss for the accounting period^[3]. The length of the accounting period is normally 1 year, although some businesses construct more frequent income statements. Measures of income provided by this statement can be used to determine tax payments, analyze expansion potential, evaluate the outcome of business activity and justify loan repayment ability^[4].

While designing the income statement, it was necessary to obey the principles published in General Notification for Application of the Accounting System in row number 1. The purpose of the principles of income statement is to classify the sales, income, sales costs, expenses, profit and loss accounts and operating results of the business and to show these factors in accordance with the facts.

The sales related to business income, profit, cost, expense and loss are shown in the gross total. No sale, income, profit item, cost, expense and loss item can be deleted from the income statement, in order to compare entirely or partly.

The income statement can be arranged in a short or detailed way, according to the unified accounting system.

The Content of the Income Statement: A short income statement arranged according to the unified accounting system, with the details of the items, is given below.

Format of Income Statement

A	Gross sales	xxxxx
B	Sale discounts (-)	(xxx)
C	Net sales	xxxxx
D	Sale costs (-)	(xxx)
	Gross sales profit or loss	xxxxx
E	Operating expenses	(xxx)
	Operating Profit or Loss	xxxx
F	Other operating ordinary income	
	And Profits	xxxxx
G	Other operating ordinary expense and losses (-)	(xxx)
H	Financing expenses	(xxx)
	Ordinary profit or loss	xxxxx
I	Extraordinary income and profits	xxxxx
J	Extraordinary expense and losses	(xxx)
	Periods profit or loss	xxxxx
K	Periods profit tax and other	
	Provisions of legal liabilities (-)	(xxx)
	Periods net profit or loss	xxxxx

Gross sales: Gross sales imply the total value that is obtained or accrued in return for the sold goods and services within the main operations of the establishment. The prices of the goods, sold in farm and consumed there are written in this section.

Sale discounts: Sale discounts consist of the value, which must be subtracted from the gross sales in order to reach the net sales income. The discounts that are given on sales and the value of returned goods are written in this section.

Net sales: The net sales are found by subtracting sale discounts from gross sales.

Sales costs: Sales costs consist of the costs of manufacture, semi-manufacture and costs of goods and services, such as raw materials and trade goods.

In farm, the cost of sold manufactures consists of following types of costs

Direct raw material and supply expenses: It is the total of the direct raw material and supply expenses in the primary component of the product which is included in the

structure of the manufactured product and the quantity of which is calculated according to the size of the crop^[5]. Seed, fertilizer and pesticide expenses in crop production are among these.

Direct worker expenses: It is the total of the expenses, incurred relevant to the production process and directly attributed to the costs of manufacture. Wages paid to workers in farm businesses and equivalence of family labor are written in this section. However, the payments to farmer and his family cannot be subtracted from the tax base^[6].

General production expenses: It is the total of the expenses in production by the business and the other expenses, except for the direct raw material and supply expenses, together with the direct workmanship expenses. Fuel oil expenses, maintenance expenses for machinery and depreciations are examples.

Operating expenses: Operating expenses consist of expenses which are related to the basic aim of the business, but cannot be included in sale costs. Research and development, marketing, selling and allocation expenses and general administration expenses are included in operating expenses.

Other operations ordinary income and profits: Income that the business gains from extra operational activities is included in this group. The total of interest income, commission income, profits on exchange and other income and profits are written in this section.

Other operations ordinary expenses and losses: Extra operational expenses are included in this section, for example, commission expenses, loss on exchange and other similar expenses and losses.

Financing expenses: These are expenses that concern debts of the business. These comprise interest, exchange difference, credit commission and similar expenses which are not added on the cost of assets.

Extra ordinary income and profit: These are income and profits received as a result of fixed assets sales.

Extra Ordinary expenses and losses: These are expenses and losses as a result of fixed assets sales.

Periodic profit tax and provisions for other legal liabilities: Provisions for taxation calculated on the period's profit and other legal liabilities are written in this section.

Table 1: Income Statement for Farm, December 31, 2004

			YTL*
A-Gross Sales			48900
Value of Crop Production			47700
	Hazelnut	9 Tons*4800 = 43200	
	Corn	5 Tons* 400 = 2000	
	Bean	5 Tons*500 = 2500	
Value of Animal Production			1200
B-Sales Discounts(-)			(...)
C-Net Sales			48700
D- Sale Costs (-)			(16700)
Costs of crop production			15720
	Hazelnut	9 Tons *1280 = 11520	
	Corn	5 Tons* 480 = 2400	
	Bean	5 Tons* 360 = 1800	
Expenses of Animal Production			980
Gross Sale Profit or Loss			32200
E-Operating Expenses (-)			(2300)
Administration Expenses			1850
Marketing Expenses			800
Operating Profit or Loss			29900
F-Other Operating Ordinary Income and Profits			-----
G-Other Operating Ordinary Expense and Losses (-)			(-----)
H-Financing Expenses (-)			(1400)
Ordinary Profit or Loss			28460
I-Extraordinary Income and Profits			-----
J-Extraordinary Expense and Losses (-)			(-----)
Periods Profit or Loss			28460
K-Periods Profit Tax and Other Provisions of Legal Liabilities (-)			(-----)
(Tax Provisions Have Not Been Calculated Due to the Taxation on Withholding Bases)			
Periods Net Profit or Loss			28460

*New Turkish Lira

Table 2: Expense Distribution Table for X Farm (Currency Unit: YTL)

Name of Expense	Place of Expense							Total
	Hazehut	Com	Bean	Animal production	Administration	Marketing		
Expense of Seed	-	672	150	-	-	-	822	
Direct Raw Fertilizer	1250	500	250	-	-	-	2000	
and Material Pesticides	300	50	100	-	-	-	450	
Grain	-	-	-	800	-	-	800	
Expense of Temporary workers	3000	600	100	-	-	450	4150	
Workers Family labor	2100	100	800	200	-	50	3250	
Fuel oil	2500	250	200	-	-	300	3250	
Rent of								
Other Expenses machinery	300	-	-	-	-	-	300	
Veterinarian	-	-	-	100	-	-	100	
Depreciation	2730	240	200	760	1400	-	5330	

Unit Costs:

Hazelnut: 12180 YTL/9500 kg = 1, 28 YTKL/kg

Corn: 2412 YTL/ 5000 kg = 0, 48 YTL/kg

Bean: 1800 YTL/5000 kg = 0,36 YTL/kg

A SAMPLE INCOME STATEMENT FROM THE FARM SECTOR

A compilation of an income statement prepared from data provided through a questionnaire from a sample farm in Çaramba is given in Table 1. Other information about the farm is as follows:

- The family labor of the business is 2 people.
- The business has 2 cows and 2 calves.

- The land belonging to the business was 11.4 ha. Nine point six ha of hazelnut, 1.2 ha of beans and 0.6 ha of corn were grown on this land in 2004.
- As a result of production activity, 9.5 tons of hazelnut, 5 tons of corn and 5 tons of beans were obtained. The business sold 9 of the 9.5 tons of hazelnut and left 0.5 tons of hazelnut in its warehouse. (The crop consumed by the business was added on the sales section as required by the tax law.)
- The produce obtained by the stockbreeding activity

was consumed by the family labor in the business. Half of the expenses of the animal production activity was accepted as the cost of subsidiary product (milk, egg... etc) and other half was accepted as live weight of the animals. Information about production costs are given in Table 2.

CONCLUSIONS

Giving detailed information for every analysis and the correct interpretation of the resulting information is of great importance in income statements for the farm sector. The information in income statements is the basic data source for both businesses and agricultural policies of the country. In Turkey, only 8 thousand of 4.1 million farms were taxed on actual bases and are keeping accounting books in 2002^[7]. Income statements are compulsory in businesses keeping books. In almost all businesses, income statements can only be prepared from information taken from questionnaires. In case of a change in the current legislation, the number of farms keeping books may increase. In such a case, instead of gathering data by questionnaire data from accountants may be used.

In determining European Union Common Agriculture Policy, the most important source of information is the Farm Accountancy Data Network (FADN). In forming the FADN system, data from Spain, Austria, Sweden and Finland are provided by private organizations (Manufacturer Associations, Agricultural Accountants etc)^[8].

Moreover, the International Accounting Standards Board (IASB) has published the number 41 Agriculture Standard, IAS- 41: Agriculture. This standard is applicable for periods beginning on or after the 1st January of 2003.^[9] However, in Turkey, an agreed accounting standard for the farm sector has not been prepared yet.

Even though, the Unified Accounting System is appropriate for the farm sector in many respects, the preparation of accounting standards suitable for the structure of the agricultural sector are needed. Particularly, natural escalations in stockbreeding and forestry products are excluded from the Sales and Other

Income Standard (TMS 4)^[10]. Hence, some information apart from an accounting system is needed for accurate economic analyses of farm businesses. Although a major bookkeeping standard is needed in the farm sector, a detailed income statement arranged according to the unified accounting system is supposed to meet economic analyses of the farm sector.

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