

Farm Inventory

The list of all the physical property of a business along with their values at a specific point of time is called farm inventory. Inventory for a business is taken at two points of time in a year *i.e.*, at the beginning of the agricultural year and at the end of the year. It constitutes cash assets, depreciable assets and non-depreciable assets. The difference in the inventory at the two points of time indicates the changes in the inventory.

Farm inventory forms the basis for the preparation of income statement, balance sheet, measurers of income, *etc.* The loss in the value of the asset due to depreciation can be worked out from the farm inventory.

As per the sub-items, inventory is presented like cash assets, depreciable assets and non-depreciable assets as presented in Table 32.1.

Change in the inventory is found out by taking the difference of the value of assets during the two periods. As evident from the table the items that need to be included in the farm inventory are, the number of various assets along with their values. As far as recording the number of items are concerned it can be done by visual verification. The relevant weights and measurers are also noted for the corresponding items of assets.

The preparation of farm inventory involves physical verification and valuation of the assets. Physical verification of the items does not pose a problem to the farmer. Problem arises, while valuing the assets, since improper evaluation leads to erroneous farm decisions.

METHODS OF VALUATION

To meet this particular objective of valuing the inventory, a look at the common methods of valuation is necessary. Following are the common methods of valuation.

1. Net selling price.
2. Cost less depreciation.
3. Market price.
4. Cost.
5. Replacement cost less depreciation and
6. Income capitalization.

1. Net Selling Price Method

This is a common method that is followed to value the assets that are primarily meant for sale. From the market price, selling costs are deducted to arrive at the

TABLE 32.1 Farm Inventory of a Hypothetical Farm on 1st June 1998 and May 1999

S. No.	Particulars	Beginning of the year (1.6.1998)		End of the year (31.5.1999)
		Quantity in Q/kg or number	Value in Rs.	Quantity in Q/kg or number
I.	Cash assets	xx	xx	xx
	Cash on hand	xx	xx	xx
	Savings in bank, etc.	xx	xx	xx
	Sub-total		xx	xx
II.	Depreciable assets	xx	xx	xx
	Land (ha)	xx	xx	xx
	Farm buildings	xx	xx	xx
	Machinery and equipment	xx	xx	xx
	Implements	xx	xx	xx
	Dairy cattle	xx	xx	xx
	Bullocks	xx	xx	xx
	Sheep and goat	xx	xx	xx
	Poultry birds, etc.	xx	xx	xx
		Sub-total		xx
III.	Non-depreciable assets	xx	xx	xx
	Grains ready for disposal	xx	xx	xx
	Fodder and feed	xx	xx	xx
	Livestock products	xx	xx	xx
	Seeds	xx	xx	xx
	Fertilizers	xx	xx	xx
	Pesticides and fungicides	xx	xx	xx
		Sub-total	xx	xx
	Total of all assets		xx	xx

current value of the asset. *Examples:* All farm products for sale, livestock for sale, etc.

2. Cost Less Depreciation Method

This is the method applicable in the case of working assets. Since these assets depreciate with every passing year, the depreciation amount is estimated and deducted from the purchase price. *Examples:* Machinery, buildings constructed recently, dairy cattle, carts, etc.

3. Market Price Method

This is a common method for valuing purchased farm supplies like seeds, fertilizers, pesticides, fuel, feeds, veterinary medicines, etc.

4. Cost Method

This method is used to estimate current value of the farm produced inputs like seed, FYM, etc. Standing crop is also valued through this method. Regarding standing crop, expenses incurred in raising the crops, till the date on which inventory is taken are recorded.

5. Replacement Cost Less Depreciation Method

This method is confined to estimate the value of very old buildings. Replacement cost represents the cost of constructing the same type of building with the present technology at present prices. After arriving at the replacement cost, deduct the depreciation so as to arrive at the current value of the building.

Example:

Actual cost of construction of very old building	=	Rs. 10,000
Useful life	=	50 years
Current (Replacement) cost of construction	=	Rs. 30,000
Present age of the building	=	30 years
Amount of depreciation	=	Rs. 6,000
Current value of the building	=	Rs. 30,000 - 6,000 = Rs. 24,000

6. Income Capitalization Method

Asset which yields income over an infinite period of time is evaluated using this method. *Example:* Land.

The formula is

$$V = R/r$$

V = Income capitalized value

R = Net income from land per annum (assumed to be constant)

r = Rate of interest

Besides this method, sale price method is also used to estimate the current value of land asset.