

Farm Inventory and Accounting Methods



Sprague & Jackson

ACCOUNTANTS AND ENROLLED AGENTS

The Seneca Building • 121 E Seneca St • Ithaca, NY 14850

David W. Sprague, EA, ABA Principal
Angie Jackson, EA, MSA Principal

Phone: (607) 273-5322

Fax: (607) 273-8138

Email: Admin@sprjac.com

Farm Accounting Methods

Most businesses use either the cash method or the accrual method of accounting. Generally, if a business produces, purchases, or sells merchandise, it must keep an inventory and use the accrual method for sales and purchases. However, the accrual method for a business with inventory is not always required and it can use the cash method of accounting, even if it has inventory.

Gross receipts test. Most small farming businesses (average annual gross receipts of \$29 million (2023) or less for the three prior tax years) can use the cash method of accounting.

Inventory. Taxpayers that meet the gross receipts test are not required to account for inventories, but rather may use a method of accounting for inventories that either:

- Treats inventories as non-incidental materials and supplies, or
- Conforms to the taxpayer's financial accounting treatment of inventories.

Uniform capitalization (UNICAP) rules. Any producer or reseller that meets the gross receipts test is exempted from the application of the UNICAP rules.

Farming business. A farming business owned by a C corporation, and partnerships with a C corporation partner, are exempt from using the accrual method if the business meets the gross receipts test.

Farm Inventory

Farm inventory includes all items held for sale or for use as feed, seed, etc., whether purchased or raised, that are unsold at the end of the year. Farmers that use the accrual method for inventory should keep records that show the actual count or measurement of their inventory.

Hatchery business. If you are in the hatchery business and use an accrual method of accounting, include in inventory eggs in the process of incubation.

Products held for sale. All harvested and purchased farm products held for sale or for feed or seed, such as grain, hay, silage, concentrates, cotton, tobacco, etc., must be included in inventory.

Supplies. Supplies acquired for sale or that become a physical part of items held for sale must be included in inventory. Deduct the cost of supplies in the year used or consumed in operations. Do not include incidental supplies in inventory as these are deductible in the year of purchase.

Livestock. Livestock held primarily for sale must be included in inventory. Livestock held for draft, breeding, or dairy purposes can either be depreciated or included in inventory. If the farmer is in the business of breeding and raising chinchillas, mink, foxes, or other fur-bearing animals, these animals are livestock for inventory purposes.

Growing crops. Generally, growing crops are not required to be included in inventory. However, if the crop has a pre-productive period of more than two years, the farmer may have to capitalize under the uniform capitalization rules (or include in inventory) costs associated with the crop.