

ALE.7

Livestock

Livestock may appear in three places on a balance sheet. On the *California FarmLink Model Chart of Accounts* you can find livestock in accounts:

1503 Market Livestock Held for Sale (NIMS)

2080 Breeding and Working Livestock - Purchased

2085 Breeding and Working Livestock - Not Purchased Zero Basis

Livestock accounting is quite complex, mostly because of federal tax treatment. In your bookkeeping system you will need to identify livestock held for market sale and livestock to be treated as depreciable assets..

Market Livestock

Purchased livestock held for market sale and on hand at the end of the tax year are treated as inventory type assets. The IRS has special rules for this which are summarized below and explained in more detail in AL.3 Materials, Supplies and Inventory on Hand.

At the end of the year, the purchase price of the livestock still on hand is capitalized (moved with a journal entry) to an asset account. This means the expense is no longer on the income statement and will not be reported on the Schedule F as an expense.

In the following year, when the livestock are sold, another journal entry moves the cost of those livestock back out of the asset account and into an expense account. This means the expense will now appear on the income statement in the year of the sale, and be deducted on the Schedule F in the year the animal (or group of animals) is sold.

If market livestock are born and raised in the operation the expenses associated with the livestock are reported as ordinary business expenses when the expenses are incurred. This means that when the livestock are sold there is income, but there is no related expense in the same period.

Breeding and Working Livestock

Livestock must be treated as depreciable assets if it is held for production of milk or fiber, for breeding, or to perform essential functions such as roping horses, herd dogs, and guardian animals.

See AT.6 and AT.4 Livestock and additional materials in the FarmLink Tax Learning Center for more information about depreciation and about how income from sale of livestock is treated.