

Service

Cooperative
Information
Report 43

Statements

Guide for Cooperative Members



Financial Statement 1—BALANCE SHEET (Example)**ASSETS**

	<u>Current year</u>	<u>Previous year</u>
CURRENT ASSETS		
Cash	\$ 62,585	\$ 144,240
Accounts Receivable	915,000	870,000
Inventories	<u>555,000</u>	<u>420,000</u>
Total Current Assets	1,532,585	1,434,240
OTHER ASSETS		
Investments in Cooperatives	570,000	555,000
FIXED ASSETS		
Land, Buildings, and Equipment	1,804,815	1,381,910
Less Accumulated Depreciation	<u>(629,150)</u>	<u>(475,400)</u>
Net Fixed Assets	1,175,665	906,510
TOTAL ASSETS	<u>\$3,278,250</u>	<u>\$2,895,750</u>

LIABILITIES AND MEMBERS' EQUITY

CURRENT LIABILITIES		
Accounts Payable	\$ 211,125	\$ 129,000
Accrued Taxes	39,000	33,750
Accrued Expenses	27,000	21,000
Patronage Refunds Payable	41,250	52,500
Loan Payable	<u>166,580</u>	<u>120,000</u>
Total Current Liabilities	484,955	356,250
LONG-TERM LIABILITIES		
Mortgage Loan Payable		
— Long-Term Portion	779,250	634,500
MEMBERS' EQUITY		
Common Stock	172,500	165,000
Allocated Equity Credits	1,305,000	1,282,500
Retained Earnings	<u>536,545</u>	<u>457,500</u>
TOTAL EQUITY	2,014,045	1,905,000
TOTAL LIABILITIES AND EQUITY	<u>\$3,278,250</u>	<u>\$2,895,750</u>

supplies. In a grain marketing cooperative, for example, accounts receivable include accounts of grain customers who purchased grain, but have not yet paid.

For grain and supply cooperatives, inventories are the products available for sale. In manufacturing or processing organizations, inventories also include raw materials used in processing. Inventory amounts vary according to the time of year. For instance, farm supply inventories increase before the spring planting season, while grain inventories are usually large after harvest.

Investments in other cooperatives are investments one cooperative has in another. Cooperatives handling farm supplies form cooperatives to provide fertilizer, petroleum, and other supply products. Grain marketing cooperatives join together to process soybeans and jointly market grain.

The land, buildings, and equipment account includes land, all types of buildings, vehicles, and other equipment. Usually the original cost is listed with depreciation subtracted to arrive at a net land, buildings, and equipment total. Depreciation is a charge made against the original cost of buildings and equipment to reflect the use of an asset over time.

Liabilities

Liabilities are financial claims against an organization. Current liabilities are due within 12 months. Accounts payable to suppliers, payments due employees, loan payments, and amounts due members are included in current liabilities.

Long-term liabilities are amounts not due in the next 12 months. Mortgage loans on building and equipment are listed in this section.

The final section is members' equity accounts. Cooperatives use a variety of names for equity accounts. Common stock is used by many cooperatives. Often a member's first share of common stock signifies a member's right to vote. Common stock may be purchased or, as is often the case, earned through patronage refunds. Patronage refunds are

based on business done with a cooperative and are the most important way members acquire equity in cooperatives.¹

Allocated equity credits include yearly additions of retained patronage refunds. Cooperative members are usually unable to demand their equity investment whenever they want. Cooperatives adopt procedures that determine when equity will be redeemed. The board of directors considers the financial condition and needs of the cooperative when they decide on the amount of equity that can be redeemed.

Retained earnings are not allocated to individual members, since they are usually from business done with nonmembers. Other terms, such as general reserves or unallocated capital reserve, are also used for equity not allocated.

STATEMENT OF OPERATIONS

The statement of operations reports the business results of the current year and often includes the previous year's results for comparison. At the bottom of the operating statement, the net income for the year's operation is shown (financial statement 2). After all expenses are deducted from total revenues, net income remains. Cooperatives sometimes use other terms, such as net savings and net margins; they have the same meaning as net income.

Net income is the focus of this statement. A high net income is a measure of success. A loss raises questions about the current year's performance. Continued losses may cause a cooperative to discontinue operations.

¹ Some marketing cooperatives have agreements with their members to deduct part of their marketing proceeds and issue per-unit capital retains for the amount deducted.

Financial Statement 2—STATEMENT OF OPERATIONS (Example)

	Current Year	Previous Year
SUPPLY SALES	\$ 6,000,000	\$ 5,437,500
GRAIN SALES	<u>3,465,000</u>	<u>3,450,000</u>
TOTAL SALES	9,465,000	8,887,500
COST OF SUPPLY SALES	5,137,500	4,593,750
COST OF GRAIN SALES	<u>3,206,250</u>	<u>3,191,250</u>
TOTAL COST OF SALES	8,343,750	7,785,000
GROSS MARGINS ON SUPPLY & GRAIN	1,121,250	1,102,500
OTHER OPERATING INCOME		
Grain Storage	90,000	157,500
Grinding, Mixing, & Drying	82,500	90,000
Fertilizer Services	127,500	108,750
Finance Charges	<u>101,250</u>	<u>97,500</u>
Total Other Operating Income	401,250	453,750
TOTAL GROSS MARGIN	1,522,500	1,556,250
OPERATING EXPENSES		
Labor	558,750	536,250
Depreciation	153,750	150,000
Insurance	105,000	86,250
Truck Operating Expenses	76,125	75,000
Utilities	47,105	55,110
Property Taxes	35,475	35,285
Reserve for Bad Debts	33,750	12,750
Interest	115,500	99,000
Other Operating Expenses	<u>119,250</u>	<u>133,500</u>
Total Operating Expenses	1,244,705	1,183,145
NET INCOME FROM OPERATIONS	277,795	373,105
OTHER INCOME		
Patronage Refunds Received	<u>9,375</u>	<u>3,750</u>
NET INCOME BEFORE INCOME TAXES	287,170	376,855
INCOME TAXES	<u>16,875</u>	<u>20,625</u>
NET INCOME AFTER TAXES	<u>\$ 270,295</u>	<u>\$ 356,230</u>

Distribution of Net Income

Patronage Refunds — Cash	\$ 41,250	\$ 52,500
— Equity Credits	150,000	210,000
Retained Earnings	<u>79,045</u>	<u>93,730</u>
Total Distribution of Net Income	\$270,295	\$356,230

Definition of Terms

The primary revenue sources are listed first on the operating statement. Sales is the amount received for products sold. In financial statement 2, grain sales and farm supply sales are shown separately. Sales are often shown on operating statements with no breakdown by product.

Cost of sales or cost of goods sold is the amount a cooperative pays for products it sells. For example, the amount a cooperative paid to its supplier for fertilizer is the cost of sales of the fertilizer.

Gross margins on sales represents the difference between sales and cost of sales. Farm supply gross margins are usually larger than grain gross margins, because farm supply products usually require more time and effort to store, handle, and sell and a larger margin is required to cover the costs.

Other operating income includes income not from selling products but from providing services. Grain storage, fertilizer services, and service charges are examples of other operating income.

Total gross margins combines margins from sales and service income. Expenses are listed next and represent the costs of goods and services used in the year's operations. Salaries, utilities, taxes, and fuel are examples. Most expenses are amounts spent by a cooperative to provide for needed products and services. Some expenses are not actual payments but represent accounting adjustments made to match the charge for an expense item to the year in which it was used.

Depreciation is usually the largest expense that was not paid in cash during the year. Depreciation is an accounting charge for the use of buildings and equipment during the year. For example, since a truck usually lasts more than a year, it is not fair to charge the entire cost of the truck to the year the truck was purchased. The cost is spread over the expected life of the truck, and each year the operating statement is charged with depreciation, a share of the cost of the truck.

Patronage refunds or patronage dividends received rep-