# Liabilities Schedule

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Well designed schedules help in organizing values needed to complete the Balance Sheet, Cash Flow Statement, Income Statement, and Statement of Deferred Taxes and Valuation Equity (if used). This OSU Extension fact sheet provides instructions and forms for inventorying liabilities and documenting detail to support entries made in the financial statements.[1] Liabilities include everything owed. The liabilities schedule lists existing loans, both farm-related and non-farm, and provides for all calculations needed to make the loan-related entries in the balance sheet, cash flow statement, and income statement. It further provides for monitoring the repayment of individual loans. A liability schedule is needed for the beginning of every reporting period. References to line numbers in OSU financial statement forms such as balance sheet and cash flow are made in the sections that follow[2]. Liability schedules for the example farm of James and Dolly Madison are included for illustration.

## Interest Accrued

Interest accrued is estimated by multiplying the principal balance by the interest rate to determine the annual amount charged, then multiplied by the portion of the year which has elapsed since interest was last paid.

The easiest and most accurate means of determining the interest accrued is by obtaining a statement from the lender. If the loan statement is not available, an approximate amount may be calculated. For example, the Madisons' tractor note has a principal balance of $22,067 and an interest rate of 10.5 percent. The last payment was made in mid-October 2009. Assuming that all payments are made in the middle of the month, interest will have accrued for 4.5 months to March 1, 2010: $ 22,067 x .105 = $2,317 for one year. $2,317 ÷ 12 = $193 per month and $193 x 4.5 = $870 accrued to the balance sheet date. Interest accrued to the operating notes and other term notes is calculated in the same manner. The total interest accrued to the Madisons' farm notes is $10,626.

## Accounts Payable

Charge accounts and credit card accounts are itemized with balances outstanding in the liabilities schedule.[3] The Madisons estimate accounts for feed and supplies will have approximately the same balance one year from the balance sheet date while accounts for the purchase of propane and for equipment repairs will be paid off. Thus, the accounts payable balance will be lower at the end of the accounting period.

## Line-of-Credit Operating Notes

Many farm operations have an open line-of-credit which enables the operator to borrow for operating expenses as needed, up to a set limit, and to repay the principal and interest as cash becomes available. Some farms have more than one credit line. Credit cards on which monthly balances are not paid off should be treated as a line of credit. The liabilities schedule provides four lines for line-of-credit operating loans. The entire principal balance of the loan and the accrued interest are considered current liabilities as they are due and payable within any twelve-month period.

The column for description will usually contain only the creditor's name as the use of the funds is not designated for a single purpose. The interest rate entered is the rate that the lender is charging on the loan. The easiest and most accurate means of determining the interest accrued is by obtaining a statement from the lender. The lender is a useful source for determining the principal balance as of the reporting date. No other entries are required on these lines. These amounts are transferred to the cash flow summary where the calculations are made monthly (OSU Extension Facts AGEC-751, lines 65 and 69). The principal amount is combined with the principal amounts for any existing short-term operating notes and entered in the balance sheet (OSU Extension Facts AGEC-752, line 31).

## Short-Term Operating Notes

These notes differ from line-of-credit notes in that a repayment date is specified and they are usually made for a specific purpose. The Madison farm has one short-term operating loan of $85,000 for cattle which was made in mid-October in year 2009. Accrued interest to date is calculated by multiplying the principal amount by the interest rate, dividing by 12 to determine the monthly interest and then multiplying by the number of months that the loan has been outstanding: $85,000 ÷ 12 x .09 x 4.5 = $2,869. The lender will provide this information if asked. (The amount estimated by the above

[1] OSU Extension Facts AGEC-791, Schedule of Assets, provides a form for summarizing assets.

[2] See OSU Extension Facts AGEC-751, Developing a Cash Flow Plan; AGEC-752, Developing a Balance Sheet; and AGEC-753 Developing an Income Statement.

[3] If at all possible, separate farm and non-farm charges for business analysis as well as tax purposes. Ideally, farm and non-farm charges will not be mixed on a credit card.

method should be reasonably close to that provided by the lender.)

Interest due this year, $3,186, is entered in the cash flow statement line 49 in the column for March. The current principal amount is entered in line 50. New loans received during the year will appear on the liabilities schedule for the beginning of the next year.

## Taxes Payable

Ad Valorem Taxes (taxes on assets based on value) and Employee Payroll Withholding are amounts accrued to the balance sheet date. The Madisons owe half of the ad valorem (property) taxes for last year, due in March, plus an amount accrued for the current year for a total of $1,647.

Income Taxes are estimated amounts. The income tax liability accrues as taxable income is earned. Farmers generally have the option to pay estimated taxes quarterly or to file early in the next tax year. The graduated tax-rate system along with various exemptions and deductions make precise estimates of tax liability difficult until all supporting data is assembled. James and Dolly Madison file their returns in February of each year and remit any taxes due at that time. They estimate their accrued two liabilities to be $10,350 based on tax amounts paid in previous years and production for the past year.

Deferred Taxes arise when asset values increase beyond their tax basis. The change represents taxable income which is not recognized for tax purposes until the assets are actually sold. Most current assets will not have a tax basis since the cost of the assets are expensed. Two exceptions are marketable securities and livestock purchased for resale. Accrued expenses are subtracted from the excess of market value over tax basis to determine deferred taxable income for the current assets. This amount is then multiplied by an estimated average tax rate for federal and state income taxes. Subtracting $95,773 for tax basis, accounts payable, accrued interest, and taxes leaves $107,201, which would be subject to taxes if the current assests were sold. Applying an average tax rate of about 40 percent for federal, state, and social security taxes results in a deferred tax expense of $43,152. More detailed information about deferred taxes may be found in OSU Extension Facts AGEC-939.

Non-Current Deferred Taxes are calculated in the same manner as current deferred taxes. The procedure is slightly simpler since social security and medicare taxes do not apply to the non-current deferred income. In the Madison case example, the current market value of land and improvements is less than the tax basis. This can occur because land is not depreciated for tax purposes and the market value can decline after the purchase. Credit for previous operating losses which have not been claimed for tax purposes should be calculated and subtracted from the estimated deferred taxes to determine the net non-current deferred tax liability.

## Term Debt

Loans secured by non-current assets are listed as term debt. Current interest (interest due this year) and current principal amounts are entered in the appropriate columns of the cash flow statement (lines 51 and 52 respectively). Current principal amounts are entered on line 32 of the balance sheet and non-current principal is entered on line 44 of the balance sheet. Interest and principal amounts due the following year are calculated to determine the current and non-current portions of the loan to be entered in the ending balance column of the balance sheet.

The tractor note has semi-annual payments so two lines are used to show the payment schedule. The pickup loan has monthly payments and will require preparation of an amortization table to determine interest and principal payments to be entered in the cash flow statement each month. The beginning balance of the loan is $6,018, the interest rate is 10.25 percent, and the monthly payment amount is $259.

Current principal is the sum of the twelve monthly principal payments due during the year (approximately $2,612). Non-current principal is the remaining balance, approximately $3,406. These amounts are transferred to the balance sheet.

The lease liability for a capital asset is handled just like a loan. For instance, the purchase price of a combine in March 2010 under a capital lease agreement is determined to be $87,999. The first payment of $20,250 is like a down-payment and is subtracted from the total price, leaving $67,749 to be paid with interest at 9.5 percent. “Principal due next year” of $13,814 would be included in line 32 of the balance sheet (with the principal portion of other term debt) in the ending balance column. The remaining balance would be included in line 44, ending balance, of the balance sheet (again, with the appropriate amounts from other loans).

Real estate notes are loans secured by real property (land, buildings, etc.). Current interest and principal payments are calculated exactly the same way as non-real estate notes and are entered in the cash flow statement, lines 51 and 52. Current principal is also included on line 32 of the balance sheet, non-current principal is entered in the balance sheet on line 44.

## Totals for Farm Notes

Total interest accrued for all notes (beginning and end of year balances) are needed for the balance sheet (line 33). Totals for current principal and principal due next year for term notes (exclude operating notes) are needed for balance sheet line 32.

## Non-Farm Notes

Loans which are not related to the farming operation are kept separate to avoid distorting farm income. All calculations are made in the same manner as for farm loans. Accrued interest and principal due this year are entered on lines 41 and 42 of the balance sheet.

## Summary

The liabilities schedule provides a convenient way of summarizing the amount owed to creditors at a point in time. The creditors will be the most accurate source of information for current balances. However loan statements on hand can be used to develop reasonable estimates. Subtotals of current and non-current portions of liabilities as well as scheduled interest payments and accrued interest for different kinds of liabilities can be transferred to appropriate lines in the balance sheet or other financial statements.



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Example Liabilities Schedule

## Madison Liabilities Schedule

Name: James and Dolly Madison

Date: 3/1/2010

| Description of Note<br>Example: Creditor, Purpose, Maturity Date | Payment Month | Interest Rate | Payment Amount | Total Principal Balance | Interest Accrued | Interest Due This Year | Current Principal | Non-Current Principal |
|---|---|---|---|---|---|---|---|---|
| **Accounts Payable (Including farm credit cards)** | | | | | | | | |
| Feed Store | | | | 0 | 0 | | | |
| John Deere | | | | 0 | 0 | | | |
| Propane Dealer | | | | 0 | | | | |
| **Subtotal: Accounts Payable** | | | | 0 | | | | |
| **Line of Credit and Operating Notes** | | | | | | | | |
| Mt. Vernon Bank - Line of Credit | | 7.0 | | 68,552 | 2,331 | | — | |
| Mt. Vernon Bank - Cattle - Matures 3/2010 | 3 | 9.0 | 88,186 | 85,000 | 2,869 | 3,186 | 85,000 | |
| **Subtotal: Line of Credit and Operating Notes** | | | | 153,552 | 5,200 | 3,186 | 85,000 | |
| **Taxes Payable** | | | | | | | | |
| Ad valorem | N/A | N/A | | 1,647 | | | 1,647 | |
| Income Taxes | N/A | N/A | | 10,350 | | | 10,350 | |
| Deferred taxes | N/A | N/A | | 335,853 | | | 43,152 | 277,277 |
| | | | | | | | | |
| **Subtotal: Taxes Payable** | | | | **347,850** | | | **55,149** | **277,277** |
| **Other Accrued Expenses** | | | | | | | | |
| Other Accrued Expenses | | | | | | | | |
| **Subtotal: Other Accrued Expenses** | | | | | | | | |
| **Term Debt** | | | | | | | | |
| JD 5410 Tractor | 4 | 10.5 | 5,132 | 22,067 | 869 | 1,158 | 3,974 | 13,912 |
| Tractor (2nd payment) | 10 | | 5,132 | | | 950 | 4,182 | |
| Mt. Vernon Bank - Pickup | Mo. | 10.25 | 259 | 6,018 | 26 | 496 | 2,612 | 3,406 |
| FLB - NW 1/4 Sec 36 | 8 | 8.5 | 12,644 | 82,962 | 3,226 | 7,052 | 5,592 | 77,370 |
| Equitable - NW 1/4 Sec 15 | 5 | 9.3 | 3,000 + interest | 48,000 | 1,302 | 2,232 | 3,000 | 42,000 |
| Equitable (2nd payment) | 11 | | 3,000 + interest | | | 2,093 | 3,000 | |
| **Subtotal: Term Debt** | | | | 159,047 | 5,423 | 13,981 | 22,360 | 136,689 |
| **Total: Farm Debt** | | | | | 10,623 | 17,167 | | 415,966 |
| **Non-Farm Notes** | | | | | | | | |
| Mt. Vernon Mtg. Co. - House | Mo. | 9.75 | 525 | 25,312 | 103 | 2,292 | 4,008 | 21,304 |
| Mt. Vernon Bank - Health Care Business | Mo. | 10 | 462 | 16,312 | 68 | 1,447 | 4,096 | 12,216 |
| **Subtotal: Non-Farm Notes** | | | | 41,624 | 171 | 3,739 | 8,104 | 33,520 |
| **Total: Non-Current Liabilities** | | | | | 10,794 | 20,906 | 115,464 | 447,484 |

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Name: ____________________ Date: ____________

| Description of Note<br>Example: Creditor, Purpose, Maturity Date | Payment Month | Interest Rate | Payment Amount | Total Principal Balance | Interest Accrued | Interest Due This Year | Current Principal | Non-Current Principal |
|---|---|---|---|---|---|---|---|---|
| Accounts Payable (Including farm credit cards) | | | | | | | | |
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| Subtotal: Accounts Payable | | | | | | | | |

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| Line of Credit and Operating Notes | | | | | | | | |
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| Subtotal: Line of Credit and Operating Notes | | | | | | | | |

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| Taxes Payable | | | | | | | | |
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| Subtotal: Taxes Payable | | | | | | | | |

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| Other Accrued Expenses | | | | | | | | |
| | | | | | | | | |
| Subtotal: Other Accrued Expenses | | | | | | | | |

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| Term Debt | | | | | | | | |
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| Subtotal: Term Debt | | | | | | | | |
| Total: Farm Debt | | | | | | | | |
| Non-Farm Notes | | | | | | | | |
| | | | | | | | | |
| | | | | | | | | |
| Subtotal: Non-Farm Notes | | | | | | | | |
| Total: Non-Current Liabilities | | | | | | | | |