

Technical Information Circular # 8

INVENTORY VALUATION

General Information

Inventory changes (quantity and price) are a factor in calculating Production Margins. Participants who wish to use a price other than a price listed on the AgriStability Program Administration's published price list may be required to demonstrate that their commodity or marketing strategy is substantially different than the industry norm and must be able to provide documentation to substantiate the price they wish to use – typically sale or purchase receipts within 30 days of the fiscal year-end are required.

Participants who have commodities (such as purebred livestock, registered seed or other unique commodities) not listed on the Administration's published list are encouraged to provide their own inventory Fair Market Values (FMV's). Note that any participant-provided FMV's may require supporting documentation.

Commodities identified as or deemed to be the landlord's portion of crop / calf share are not eligible and are not assigned values in calculating beginning or ending inventories. (Note that this does not apply to shared inventory in a joint venture.) Additionally, commodities purchased and resold with no agricultural value being added are not eligible and are not included in the inventory calculations.

Livestock / Poultry

Hybrid Inventory Adjustment Pricing Method

For breeding stock, culled breeding stock and laying poultry, inventory adjustments are included in the margin by calculating the change in quantity multiplied by the ending price.

Inventory adjustments for marketable livestock / poultry are included in the margin by calculating the change in the value of inventory [ending quantity multiplied by the ending price less opening inventory multiplied by the opening price]. Note that this includes both open or bred heifers and gilts.

Participants who file on an accrual basis will have the hybrid pricing method for breeding stock applied to inventory reported for tax purposes beginning in reference year 2006 and must provide all information necessary for re-valuation upon request.

Crops

Inventory adjustments for crop commodities are included in the margin by calculating the change in the value of inventory [ending quantity multiplied by the ending price less opening inventory multiplied by the opening price].

Standing Crop for Participants with an Off-Calendar Year-End

If the participant's year-end is such that harvesting may or may not have been completed, the participant may elect to report the full amount of unharvested crop on ending inventory. Total crop yields may be estimated if Production Insurance information is not available. Fall and winter crops should also be reported in this manner. If crop is in the ground and not reported as inventory for the Program Year, the cropping expenses may be required to be reported on the purchased inputs Schedule 1c.

Note: *The participant is required to report on a consistent basis in all years. That is, both opening and closing inventory should be reported using the same method.*

Snowed –Under Crop

Snowed-under crops not harvested until the following spring are assigned the FMV and yield of that commodity at year end, based on the timing and grade loss estimated at that time. The quantity, if any, of the actual harvested amount is to be reported as production and ending inventory. As these crops may have additional costs subsequent to the year-end, the Administration may include a "Harvest Cost Discount" accounts payable in the margin.

Acres related to snowed-under crops are included in the production history (for purposes of Structural Change) in the year for which production was originally expected.

Swath Grazing

Swath grazing is the cutting of grains or other crops into windrows for livestock to graze as part of the participant's winter-feeding strategy. Typically, the livestock's access to the swaths is controlled by fencing or other means.

Any crops used for swath grazing purposes must be included as inventory (on Schedule 2: Crop Inventory Worksheet). Swath grazing production / usage should be reported as follows:

- Identification of the specific crop. i.e. barley, oats, etc.;
- The amount of feed material estimated to be on-hand at the beginning of the year (including the unit of measure and the approximate FMV based on nutrient levels and feed/forage market conditions);
- The amount of acres put into production in the Program Year;
- The yield (in the units of measurement already provided);
- The amount consumed as feed in the Program Year; and
- The amount of feed material estimated to be on-hand at the end of the year and its approximate FMV based on nutrient levels and feed/forage market conditions.

Contracted Commodities

A forward contract, also known as a *deferred delivery contract*, locks in a sale of a commodity (quantity and grade) and sales price at a certain future date. When a Producer reports a contracted commodity in inventory at year-end, the contracted price should be reported as the ending FMV for that specific commodity / quantity. Contract documentation may be required.

Pooling Adjustments

Commodities such as honey, beans or pooled grains are typically sold through a pooling arrangement whereby the participant receives a series of payments staggered over two or more tax years. Values assigned to pooled commodities are to be based on the total projected revenue.

The Administration may apply adjustments for receivables to bring the reported income up to the pooled commodities' projected full value.