INTEREST AND DEPRECIATION CHARGES IN FARM ACCOUNTS.

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INTEREST.

THE matter of interest on capital and to what extent it should be taken into account in farm-cost accounts may be first considered. Some authorities advocate that interest should be debited to each farm trading account in proportion to the amount of capital involved in that particular operation. There are many reasons, however, why such practice should not be followed. The chief of these are,—

(1.) Interest represents income to the one who receives it and a deduction from the income of the one who pays it. This being the case, interest on invested capital cannot properly be charged in the cost of production, because no cash transaction actually takes place.

(2.) Interest on capital invested bears the same relation to the farmer as do the profits from the farm, and to ensure such profits it is quite necessary to have the farm properly equipped. It is therefore unreasonable to charge up to the individual farm operations interest on the value of the necessities to carry on those operations.

(3.) Cost accounts for farming operations in order to be reliable and useful should be based on absolute facts, and therefore should not have included any element of doubt or of a variable nature, especially when such costs are subjected to comparison. Cost charges usually are based on an increase in (*a*) some liability, such as wages, &c., or (*b*) a decrease in some assets, such as manures, seeds, &c., used. If the charging of interest is justified, how are we to arrive at a fair rate? Opinions would surely differ, with the result that farm costs for similar products on different farms with otherwise equal charges would show considerable discrepancies.

(4.) Taking the case of a crop unharvested at the end of the farmer's year, any interest included at stocktaking in the value of such crop directly anticipates profits from the crop and therefore inflates the inventory.

Interest charges on capital may, if considered necessary, be debited to an "Interest Account," or an "Interest, Rent, Rates, &c., Account," and at the end of the year closed into profit and loss account. Or, as an alternative, such changes could be provided for in the closing journal entries by a direct debit to profit and loss and a like credit to capital account.

DEPRECIATION.

The matter of depreciation charges—chiefly in relation to farm implements and machinery—will now be briefly considered. Flocks and herds of live-stock and crops are generally treated as floating assets, and as such are not subjected to depreciation. It is by the sale or use of the floating assets on a farm that profits are made, but it is by the use