We want to evaluate net income per class or enterprise. Therefore, we must “match” the income shown with the expenses that produced it. This concept is the basis for management accounting. If the income presented is not matched up with the correct expenses, net income is distorted. For example, producers in the Rolling Plains of Texas plant wheat in the fall. Most expenses for the entire crop are incurred at that time. On December 31\textsuperscript{st} the net income represented on the Schedule F tax form is not representative of the expenses shown. Income for that wheat crop will not be received until the following year. Once again, the Schedule F shows income that is not matched with the expenses that produced it.

From a tax standpoint, the above scenario is perfectly fine; most agricultural producers file taxes on a \textit{Cash Basis}. However, from a management standpoint, information from the Schedule F is useless. In order to match income and expenses, we use journal entries to move costs association with incomplete classes onto the Balance Sheet as a current asset. Since Transfer Accounts are used (Other Expenses- below the Net Ordinary Income line) tax information is still complete, but the resulting net income is representative of the Matching Principle.

Reverse the journal entry, but date it 01/01/XX of the next year. This transaction will bring the expenses back to the Profit & Loss for the next year.

\textit{Tips for transferring incomplete classes to the Balance Sheet:}

Date of journal entry is 12/31/XX to transfer to the Balance Sheet.

Debit \textit{Other Current Asset: Investment in Growing Commodities: Name of Crop/Livestock class} for total net income from the Profit & Loss by Class. It is not necessary to classify this portion of the transaction since it is not reflected on the income statement.

Credit \textit{Other Expense: Transfer Inventory Cost: Name of Crop/ Livestock class} for total net income from the Profit & Loss by Class. \textit{Be sure to classify this portion of the transaction since it is reflected on the income statement!}

Date of journal entry is 01/01/XX of the following year to transfer back to the Income Statement.

Debit \textit{Other Expense: Transfer Inventory Cost: Name of Crop/ Livestock class} for total net income from the Profit & Loss by Class. \textit{Be sure to classify this portion of the transaction since it is reflected on the income statement!}
Credit **Other Current Asset: Investment in Growing Commodities: Name of Crop/Livestock class** for total net income from the Profit & Loss by Class. It is not necessary to classify this portion of the transaction since it is not reflected on the income statement.