California farmers operate a highly commercialized business. In 1951 they took in an average of around $18,000 per farm and paid out a large portion of it in operating costs, for capital items, and in personal income taxes.

The addition of social security taxes on permanent farm help, important changes in capital asset rulings, and taxation of gains thereon, and higher income tax rates for 1951 have increased the farmer's need for accurate records. But even more important, is the increase in funds needed for living and meeting operating costs which call for more care in managing finances.

The farm family which keeps good financial records on the farm, and watches the accumulating costs and personal withdrawals can make better decisions and probably enjoy a larger net income with greater financial security than if they merely watch the bank balance and have some one make up an income tax return at the end of the year from canceled checks and other business papers.

It is well to deposit all incomes—farm and personal—in a single checking account and make all farm payments and large personal payments by check. Pocket cash is a personal matter, unrecorded except when money is taken from farm funds or paid from pocket cash on farm expenses.

Cash Record

A multicolumnar cash journal type of cash record form should be used—with several columns for different kinds of income and more columns for distribution of payments. Total cash received and paid columns should parallel the checking account and hence furnish a check on its accuracy and completeness. Columns must be provided for personal or non-farm and capital receipts and payments as well as for farm incomes and expenses so all transactions can be recorded properly with amounts distributed over the proper columns.

Prompt Recording

Frequent entry and keeping records up to date are essential. Many payments of a single bill are part personal or capital and part farm business expense and prompt recording is the most convenient and accurate method of handling records. It takes less than a minute more—when a check is written—to enter it in the cash record and place the proper amount in the paid column and show the purposes of the expenditure by placing the proper amounts in the personal and various farm expense columns. Time is saved, since the allocation can be easily made at that time while the details are at hand and the breakdown does not need to be written on the check or check stub.

Monthly Totals

Adding the columns once a month and checking totals for accuracy and completeness is beneficial although not entirely necessary. These monthly totals are very useful in watching costs and personal withdrawals, and in making budgets and providing adequate operating capital in subsequent years. Also adding the 12 monthly totals makes it simpler to obtain annual figures at the end of the year.

Capital Record

The importance of depreciation and gain and loss in disposal of capital assets requires good complete capital records showing costs and remaining values of all important items. Running records over a period of years are helpful and time savers.

Net Worth

A listing of assets and liabilities and figuring net worth is a most valuable aid to financial management. It should be done at least once a year and is a source of satisfaction when getting ahead or a needed warning when running behind. It is essential in obtaining needed credit.

Profit

Net farm profit should be carefully figured each year not only to avoid overpayment of income taxes, but also to provide the basis for further study to improve profit. Where any considerable value of products, feed and livestock are owned, an annual inventory should be made and used in computing farm profit for management purposes.

High yields or high production per animal are essential to profits in these times. Every enterprise has some type of production analysis that should be made each year and compared with other years and other farms. It is also well to make a permanent record of crop acreages and yields for future reference. A good farm record book should contain a place for a map of the farm and a page with acreage, livestock and production listings for three years. Such records were of great value in 1933 in establishing cotton and wheat allotments.

Accuracy and System

Approximate accuracy should be the minimum goal. Systems of cross checking to prevent gross errors and omissions are desirable. The failure of books to balance by small amounts should not be an occasion for giving up. Use of an adding machine will promote accuracy and save a lot of time. The double entry system with debits and credits that may be proven equal is the basis of all commercial accounting.

Social Security

Where there are only a few regular employees, a supplemental sheet for each employee to show his earnings and tax withheld will be adequate. Where there are several it may be helpful to use one of the commercial payroll and Social Security record books that are obtainable at most dealers in accounting books and forms.

Preserve Records

Since current records may be needed for reference in future years, it is well to have good systematic and complete records, preserving the record books indefinitely and substantiating vouchers, canceled checks and business papers for about four years.

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A California Farm Record Book designed on the double entry system and which can be used as the original book of entry for a list of ledger accounts but which does not require technical accounting training may be examined at the county office of the Farm Advisor.