

# Farm Records and Accounts

adequate financial records are essential to good management and successful farming

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The 60 to 100 hours a year spent by the average farmer in keeping financial records is apt to be the most profitable time he spends.

An hour every two or three days to pay the bills and make the entries; an evening once a month to check the record book to the bank statement and obtain monthly totals; a day or two at the end of each year devoted to annual statements and analyses are essential to good management and successful farming.

An adequate system of farm records is necessary for the following purposes:

1. To determine the earnings of the farm and discover means of increasing them.

2. To furnish data for income tax returns and other statements and reports required.

3. To provide a historical record of transactions, events, and production for future reference.

4. To determine the net worth and financial status of the farmer, and his investment in and withdrawals from his business.

5. To aid in the administration and management of the business from day to day, in the payment of wages and bills, and conserving of funds and supplies.

It is desirable also that it furnish a record of personal withdrawals and contributions or living expenditures so these may be compared to farm profit. Living beyond the net farm income is living up invested capital, unless outside income makes up the deficit.

The entering of transactions and watching finances from day to day builds up an awareness and sense of proportion that makes for better results with less outlay. Previous entries and results can be referred to as a guide in many managerial decisions.

Where accounting is hired off the farm, records should be currently up-to-date and conveniently available for reference.

## Cash Record

The Cash Record or record of Cash Incomes and Expenditures is the most important and essential record.

It is desirable to deposit all income in a single checking account and make all

payments and personal withdrawals for pocket cash by check. These payments are then entered in the cash record where distribution by kind may be readily shown in a number of separate columns.

Monthly totals are desirable as a guide and aid in budgets and use of operating credit.

The common practice of merely entering data on the check stubs and having them summarized at the end of the year for income tax purposes fails to supply the current information so essential to better management and profits.

## Capital Outlay

California farmers have a considerable investment in buildings, orchards, and equipment. Capital outlay must be kept separate from current operating costs but should be recorded. They should be made the basis for calculation of profit and loss in the disposal or destruction of any asset. Also the proper calculation of annual depreciation as a part of farm expense should be based on capital outlay records.

A capital and depreciation record for listing all major items as to cost and computing depreciation and remaining book value annually is a second important essential in farm records. Space for several years with a single listing would be desirable in such a record.

## Production Records

Production of crops and livestock should be recorded annually for future reference. A map showing fields and crops is also desirable. Yield or production per acre or per producing unit of livestock is an important management or profit factor and should be available for comparison over the years. Such a record may also be very valuable in obtaining a production or marketing quota under various agricultural programs.

## Inventory

Inventories of crops, feed, supplies, and livestock on hand should be taken annually and used in figuring profit for the farm business wherever the value is considerable in relation to annual profit or where there is much fluctuation in quantity from year to year.

Even where profit for the income tax return is figured on a cash basis, it is still desirable to use inventories in figuring profit for management purposes.

## Financial Statements

The capital records and inventories plus supplemental records of other assets furnish the information for accurate periodic financial or net worth statements.

Such statements are useful in obtaining credit, but even more valuable to the farmer in showing him whether he is getting ahead or running behind financially. This information is either a valuable source of encouragement and satisfaction or a warning of impending impairment of financial security.

The farm profit statement for a year's cycle of operations is the main goal in farm records. It should be complete, detailed and accurate. Totals from the cash, capital and inventory records are used in its preparation. It should be uniformly prepared annually in a permanent record for comparison from year to year. It should be analyzed and studied carefully.

The account books or system followed may be of any kind—preferably one to which the farmer is or can become accustomed. A specially designed farm record book with printed headings, instructions, and statements, will be a timesaver as well as a guide in record keeping.

Some record books designed for farm use have a double-page cash record for recording combination transactions and which makes possible easily obtained accurate totals of income and expenditures with distribution to personal expenditures, capital outlay, and a considerable list of farming expenses.

Space is provided for two or three years for the average family-sized farm. Capital and depreciation records, inventories, production records, net worth statements and profit statements for three years are included.

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*California Agricultural Extension Service Circular 124 "Records and Accounts for California Farmers" is useful and available free at any local office of the Farm Advisor, or by addressing a request to Public Service Office, 108 Giannini Hall, College of Agriculture, University of California, Berkeley 4, California.*