

Farm Enterprise Accounting

cost and production records on each farm activity provide facts for organization of a more profitable farm business

Arthur Shultis

Maximum profit in commercial farming requires the most effective use of each land type and of every other production facility.

Such practice usually means several farm enterprises—different crops or land uses, one or more kinds of livestock—undertaken with the expectation that each enterprise will contribute to the total farm profit.

Information essential to the selection, operation, and combination of enterprises—costs, returns, and profit for each enterprise—must be available to the management, if the farm as a whole is to be most profitable. The necessary information can be obtained by enterprise accounting.

Enterprise accounting provides a detailed profit statement and analysis for each crop or livestock activity operated from one headquarters. It furnishes the costs of operating tractors, trucks, and other service units; provides a better check on labor and materials; enables accurate allocation of costs and earnings between enterprises; and provides for accurate computation of farm profit for a particular production cycle by carrying over costs for a next crop and segregating development costs, such as for a young orchard, from current operating costs.

Enterprise accounting is accomplished within a double-entry accounting system by use of an account—or group of accounts—for each enterprise and service unit, and by inter-account charges and credits. Each enterprise is credited for its production for sale or use on the farm, and is charged for its direct cost and its just share of overhead costs. Most of these charges and credits should be made at the end of each month so the enterprise accounts will show accumulating costs and probable profit to guide management in further expenditure and marketing decisions.

Inter-enterprise charges and credits are made at farm values—current local market values less marketing costs. As an example, pasturage costs would be credited to the pasture enterprise at the going local rate per head or animal unit month, and would be charged to the proper livestock enterprise.

Service units—such as tractors, trucks, farm machinery, employees' board and housing, and irrigation water—are oper-

ated to provide services to the production enterprises but not to make a direct profit. These services are charged to the proper enterprises at the end of each month at rates estimated at the average annual cost per hour or unit.

Labor

Labor costs are allocated at the end of each month to individual enterprises and to service units by means of time cards and a payroll record. A time card showing the distribution of time by enterprises and service units is essential for every employee and working owner. Time cards may be daily, weekly, semi-monthly, or monthly. The monthly card—regardless of the pay period—saves clerical work.

Labor costs in such cases as sickness or vacation with pay can be carried as undistributed labor and allocated at the end of the year in proportion to the labor already charged.

General expenses may be accumulated in appropriate accounts until the end of the production and then allocated to enterprises on an appropriate basis for each type. County taxes should be allocated to enterprises and service units in proportion to the assessed value of the land and other assets used by each. Fire insurance should be charged in proportion to use of the insured facilities.

Management

Management should be handled as a service unit with costs allocated on an appropriate basis—such as the estimated time spent or on the total expense—and charged at the end of the year rather than monthly.

The owner's dwelling and personal affairs are handled—to some extent—through the farm business so must be considered as a service unit to receive the proper share of general expense. Accumulated expenses, however, are charged to the owner's personal or capital accounts.

Depreciation

Depreciation should be estimated and charged to the appropriate service unit and enterprise accounts near the end of the fiscal year. A capital and depreciation record which lists each depreciable asset

and carries forward remaining values from year to year is an excellent supplement to the general ledger asset accounts.

Inventories

Inventories of feed, supplies, and livestock on hand are essential in figuring enterprise profit and the true farm profit for the year. Consistent, conservative valuation policies must be followed to minimize book profits or losses due to changes in values. Purchased feed and supplies should be evaluated at cost and farm products and livestock at farm value. Inventories should be used in figuring enterprise profit and total farm profit.

At the end of the fiscal year, enterprise accounting requires the transfer of all remaining balances in expense and service unit accounts to enterprise accounts. Enterprises that have completed their cycle are then closed and profits are figured.

After the books are closed for the year, information is available for the preparation of final profit statements and for an analysis of each enterprise to determine its contribution to the total profit of the farm.

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