



# Record Keeping 101

Small and Beginning Farmers Workshop

Milledgeville, GA

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Ag & Applied Economics

# Overview of Today

- Why keep records
- Production records
- Financial records
  - Five easy steps to record keeping
- Schedule F
- Essentials of good records



# Why Keep Records?

- Record keeping is an **important** activity for **ag enterprises of any type or size**
- Business records may be required for **tax purposes**, to qualify for **government assistance programs, loans or leases**
- A good set of records can help you make **better business decisions** by providing real data about past performance that helps you to more accurately **predict future trends**



# Top 3 Reasons for Not Keeping Records

*Are these thoughts that you've had?*



- 1) I don't have time
- 2) I'm not that organized
- 3) I consume everything I grow/raise

# Using Your Records

- **Taxes:** records provide the documentation needed to deduct the production costs
- **Government Programs:** records are required for participation
- **Loans/credit:** financial records are required to obtain loans or other forms of credit
- **Leasing agreements:** production and financial records required in order to lease or buy additional land
- **Farm management and planning:** records help you make informed management decisions and future plans



# Business activities that require business records

- Crop insurance claims
- Product marketing strategy
- Commercial bank loan
- Enterprise feasibility decisions
- Federal income tax filing
- Farm revenue insurance claims
- Production technique comparisons
- Strategic Planning

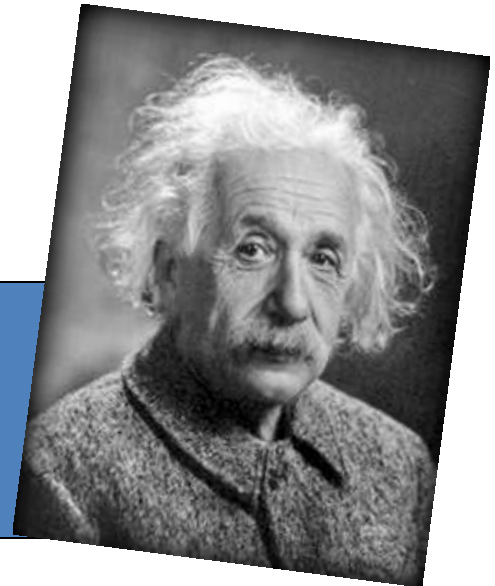


# How Much is Enough?

*You want to end up with a set of records that:*

- Fits your operation
- Is easy to maintain
- Provides the information you need to make good decisions for your operation

*“Everything that can be counted doesn’t necessarily count; everything that counts cannot necessarily be counted.” - Einstein*



# Getting Started

*Make record keeping a **habit** that is part of your daily, weekly, and monthly activities:*

- Write down events when they happen
- Keep receipts
- Organized on schedule; weekly or monthly






# Beyond Receipts: Keeping Production Records

*More than keeping your receipts in labeled envelopes or files, using additional forms to organize and track the information is where the real value of records is found*



# Keeping Production Records

- Track details of day-to-day production such as **inventories, inputs consumed** and **products sold**
- Track the number of animals in a herd, acres planted of a specific crop, crop yields or amount of product produced 
- Track **amount** of inputs used to raise your crops or animals to help **track input consumption** and **expenses**, and **anticipate future input needs**

# Recording Inventories

## Breeding Swine Inventory Records

Description	Date*	Number of Animals	
		Sows	Boars
Beginning inventory	1/1/x5	0	0
Purchased sows/boars	2/17/x5	5	1
Sow#124 died	3/1/x5	(1)	
Transferred replacement gilts	7/18/x5	10	
Year End Count	12/31/x5	14	1

\*Enter the date that an animal is purchased, transferred into the breeding herd, sold, or dies.

# Another Type of Inventory

## Feeding Records

Starting				Ending		
Date	Description	Number	Avg. Wt.	Date	Number	Avg. Wt.
1/12/x6	Mixed lots from sale barn	25	22 lbs	8/2/x6	24	264
7/18/x6	Transferred barrows from own herd	15	21.5 lbs			

# Another Type of Inventory (cont.)

**Breeding Inventory**

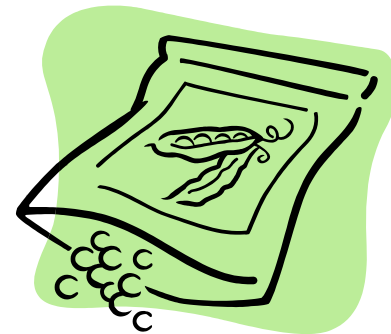
Female ID	Breeding Date	Sire ID	Birth Date	Number		Weaning Date	Avg. Wt. at Weaning
				Born	Weaned		
#121	unknown	B101	02/18/x6	10	8	05/03/x6	20 lbs
#124	12/02/x5	B101	03/19/x6	7	7	06/01/x6	18.5 lbs
#122	12/02/x5	B101	03/19/x6	9	5	06/01/x6	16 lbs
#125	unknown	B201	05/12/x6	12	11	07/15/x6	21.25 lbs
#202	12/02/x5	B202					
#203	12/02/x5	B202					

# Input Records

Feed Inventory				
Date	Beginning Inventory	Purchased or Raised	Used	Remaining Inventory
1/1/x5	8.5 bags			8.5 bags
1/6/x5			-4	4.5
1/11/x5	4.5	+20		24.5
1/13/x5			-4	20.5
1/20/x5			-4	16.5
1/27/x5			-4	12.5
2/1/x5	12.5 bags			12.5 bags

# Benefits of Production Records

- A good set of production records can help you make more **informed management decisions** for your operation
- These records can **help you to decide:**
  - How many acres of a crop to plant
  - Which animals to keep for breeding stock
  - How many breeding animals are needed
  - The amount of inputs to have on hand



# Financial Records

*Financial records help answer questions like:*

- Am I making money?
- Where is the money going?
- Do I have money right now?
- What is my income tax liability?
- Will I have to borrow money?





# Three Related Forms

*There are three key financial forms that every operation should complete:*

- 1) Expense and Income Statement
- 2) Monthly Financial Record
- 3) Annual Financial Summary



# Basic Record Keeping: 5 Easy Steps

Step 1: Keep all income and expense receipts

Step 2: Record business transactions

Step 3: Transfer entries into Monthly Ledger

Step 4: Estimate farm profit or loss

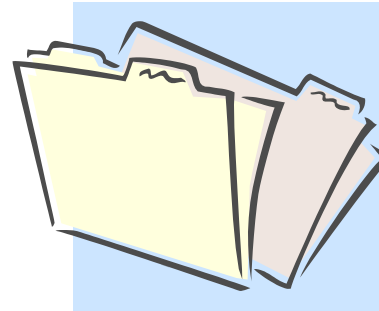
Step 5: Enterprise analysis

# Step 1: Keep All Income and Expense Receipts

- **Save documentation of income and expenses**
  - Ex: sales receipts, cash register tapes, check records, credit card receipts and statements
- **Sort the income and expense documents by:**
  - Crop or livestock enterprise, income or expense type
- **This will provide valuable information for:**
  - Estimating the profitability of each enterprise
  - Comparing competing enterprises
  - Calculating breakeven market prices or yields
  - Comparing different production techniques

# Save Your Receipts

- Use envelopes or folders labeled for your key income and expense categories
  - Crop sales
  - Livestock sales
  - Seed
  - Fertilizer
  - Fuel
  - Feed
  - Veterinarian
  - Etc.

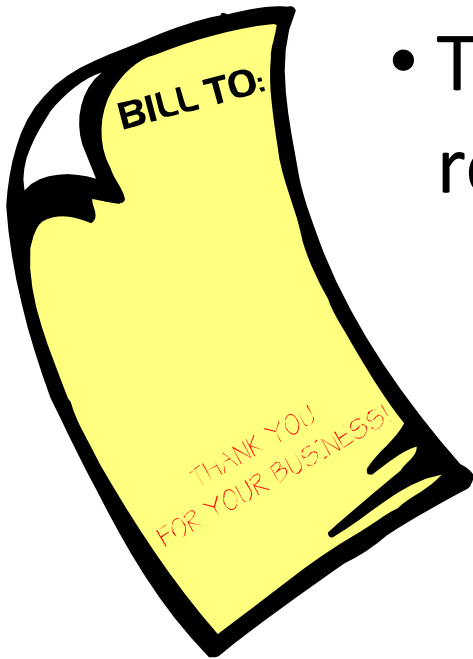


## Step 2: Record Business Transactions

- Not all journals separate transactions by enterprise
- Doing this can provide information to you in a way that will help you make better management decisions
- For transactions associated with two or more enterprises, do your best to allocate the income or cost to the appropriate enterprises

# Mixed Receipts

*When sorting by enterprise, you may encounter mixed receipts*



- There are three types of mixed receipts
  - 1) No specific enterprise
  - 2) Multiple enterprise
  - 3) Farm and household

# Transfer Data From Production Records

## CATTLE SALE RECORDS

Name of owner/ranch: Burbank Ranch

Premise Identification Number: 008-987-111-32

Date	Animal ID#	Animal Type	Brand	Age	Sale Weight	Sale Price	Buyer/Auction
10 - 20	197B	Steer	M + R	8 Months	<b>720</b>	<b>\$1.20/lb</b>	John H.
10 - 23	212 - 215	Heifers	M + R	8 Months	<b>690</b>	<b>\$800/Hd</b>	Jeff T.

## EXPENSES AND INCOME

From 10/15 to 10/27

Date	Description	Chk no.	Expense	Income	Account Balance
10/20	Steer Sales	1007		<b>\$600</b>	\$600
10/23	Cattle Sales	4356		<b>\$2,464</b>	\$3,064

## Step 3: Transfer Entries into Monthly Ledger

*The monthly ledger sums all the income and expenses by account for each month:*

- List your income and expense categories
- Add up the journal entries by account each month
- Record the totals in the monthly ledger



# Transfer Expenses and Income to Monthly Records

EXPENSES AND INCOME From <u>10/15</u> to <u>10/27</u>					
Date	Description	Chk no.	Expense	Income	Account Balance
10/20					\$600
10/25	Cattle Sales	4356		\$2,464	\$3,064

EXPENSES AND INCOME From <u>1/01</u> to <u>1/15</u>					
Date	Description	Chk no.	Expense	Income	Account Balance
1/01					\$4,000
1/10	Gerald's Feed Invoice # 25679	4356	\$1,500		\$2,500

MONTHLY FINANCIAL RECORDS												
Name of owner/farm: <u>Burbank Ranch</u>										YEAR _____		
Description	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Revenue										\$3,064		
Car and truck												
Chemicals												
Fertilizers												
Insurance												
Hired Labor												
Rent-mach&equip												
Rent-land												
Repair & maint												
Seeds & plants												
Feed	\$1,500											

# Step 4: Estimate Farm Profit or Loss

- The income statement:
  - All income is summed on the left
  - Expenses are totaled on the right
- Provides an estimate of the profitability of the farming business over the last year
- Obtaining the largest net farm income possible is the primary goal of most farmers
- To achieve this goal, you must select profitable crop and livestock enterprises

# Annual Financial Summary

## MONTHLY FINANCIAL RECORDS

Name of owner/farm: Burbank Ranch

YEAR \_\_\_\_\_

Description	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Revenue	500									3,064			
Car and truck													
Chemicals													
Fertilizers													
Insurance													
Hired Labor													
Rent-mach&equip													
Rent-land													
Repair & maint													
Seeds & plants													
Other supplies	1,500												
Taxes													
Utilities													
Others													
Interest													
Total	1,500												
Net	-1,000												

## ANNUAL FINANCIAL SUMMARY

YEAR \_\_\_\_\_

YEAR \_\_\_\_\_

Month	Expenses	Income
January	1,500	500
February		
March		
April		
May		
June		
July		
August		
September		
October		3,064
November		
December		
Total	\$1,500	\$3,564

Month	Expenses	Income
January		
February		
March		
April		
May		
June		
July		
August		
September		
October		
November		
December		
Total		

Profit or Loss: \$2,064

Profit or Loss: \_\_\_\_\_

# Step 5: Enterprise Analysis

- Estimate profitability of each individual crop or livestock enterprise through an enterprise analysis
- Use only those income and expenses associated with the specific crop or livestock enterprise
- Total income minus total expenses equals an estimate of the enterprise's profit or loss
- Performed on a yearly basis so you can keep track of which enterprises are profitable and which are not

# More Financial Analysis

Start with these steps, but work to advance to preparing financial statements including:

- Cash flow statement
- Balance sheet
- Income statement
- Statement of owner equity



# Using Financial Reports

- You will begin to identify financial trends as you develop financial records over a few years
- The trends may answer key questions about the management of your operation

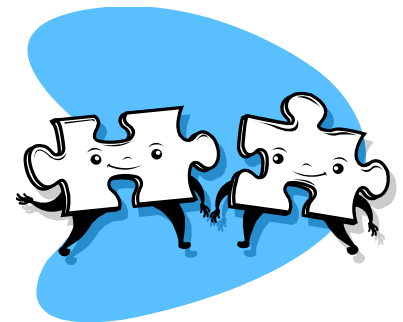


# An Alternative System

Date	Description	Total Amount	Market Livestock	Interest	Breeding Stock	Others...
4/1/x5	quarterly interest	\$17.27		\$17.27		
2/21/x5	3 - piglet sales	\$120.00	\$120.00			
9/21/x5	7 - pig sales	\$490.00	\$490.00			
9/29/x5	8 - pigs & sows	\$585.00	\$385.00		\$200.00	
9/30/x5	7 - pig sales	\$469.00	\$469.00			
<b>Total</b>		<b>\$1,681.27</b>	<b>\$1,464.00</b>	<b>\$17.27</b>	<b>\$200.00</b>	

# Advantages of the Two-Sided System

- Receipts for transactions involving **more than one of your sorting categories** can be easily handled
- Accounts can be **doubled-checked** for accuracy by ensuring the total from the left side agrees with the total of all the entries made on the right side of the form





# Schedule F



## *What is a Schedule F?*

- Schedule F is the IRS form for farmers to report income and deductible expenses for their farming operation
- The IRS defines a farmer as “A person who cultivates, operates or manages a farm for profit.”
- A farm includes stock, dairy, poultry, bee, fruit, or truck farms and plantations, ranches, nurseries, ranges, orchards and oyster beds

# Transferring Income to the Schedule F?

You may need to refer to the prior year's income statement for some information, such as the price of items purchased for resale



# Reporting Farm Expenses

- Each type of expense has a specific line on the form where you report it
- Expenses from all categories are totaled at the bottom of the expenses portion of the form





# Schedule SE

- Farm profits and other self-employment income are multiplied by 92.35% to determine net earnings
- Net earnings are multiplied by the current SE tax rate to determine the taxes owed
- When a farm operates at a loss, has expenses that exceed income, or has net earnings amounting to less than \$400, no self-employment tax is owed for that year
- The IRS allows the self-employed to record SE taxes as an adjustment to total income on the Form 1040

# Schedule F: Non-Tax Advantages

*A Schedule F may*

- Enhance one's ability to prove land is used for ag, which generally has lower property tax rates
- Enable participation in some gov't programs through NRCS and FSA
- Be required to purchase certain crop insurance products
- Be required to obtain payments when gov't declares a disaster area caused by drought or other weather event
- Strengthen an application for a farm-related loan



# Essentials of Good Records



- A good set of detailed records:
  - Is worth the effort, time and cost
  - Enables you to make better management decisions
  - Separates personal and business finances
  - Makes tax preparation easier and more accurate
- Essential aspects of good record keeping systems
  - Accuracy, completeness, arrangement, permanency, neatness, legibility, simplicity, and consistency

# Hand vs Computerized System



- To establish a good set of usable records, you will need to determine whether to keep them by hand or use a computerized system
- There are advantages and disadvantages to both

# Evaluating Computer Software

*Before deciding which software to purchase, ask yourself these questions*

- How easy is the program to use?
- Who will input the data?
- What support is available?
- What output and output formats can be generated?
- Will the output meet the needs of all users?





*The foundation of good record keeping is putting information together in a way that supports sound management decisions.*

*This will improve not only your business but also help you achieve your personal goals as well.*

# Thank you



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