Organizing a Farm Record Keeping System

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**HOW IS A FARM RECORD SYSTEM ORGANIZED?**

A complete record keeping system will provide the necessary information for:

- reporting taxes
- developing annual profit/loss statement or balance sheet
- accounting for each enterprise to identify strong and weak points of the farm operation

It may also be necessary to keep other records of loans and loan repayments, labor records, and personal expenses.

A complete record system may have the following components:

- Record Book (receipts & expense record)
- Financial Statements (balance sheet, income statement)
- Cash Flow Statement
- Production Records
- Enterprise Reports
- Inventory Reports
- Depreciation Schedule
- Labor Records
- Family Living Expense Records

**COMMON REPORTS IN A RECORD KEEPING SYSTEM**

**PRIMARY REPORTS**
- Record Book
- Balance Sheet
- Cash Flow Statement (and/or cash flow budget)
- Income Statement

**SECONDARY REPORTS**
- Enterprise Reports (enterprise budget or enterprise analysis)
- Inventory Reports
- Depreciation Schedule
- Employer Payroll Records
- Family Living Expense Record
THE RECORD BOOK

- A record book is a detailed trail or recording of financial transactions.
- Transactions usually fall into one of three categories:
  - operating income and expenses
  - capital asset purchases & sales
  - financing transactions involving borrowing or repayment of debt
- A record book is very similar to the basic checkbook register where one records check number, date, who check was for, and for how much.
- Each entry in the record book usually includes date, check or deposit number, type of transaction, description, payee or income source, and amount.
- A record book could be a hand record, checkbook register, or computerized system.

GENERAL LEDGER

- The General Ledger is a report that reflects the accumulated totals for all operating, capital, and financial transactions.
- The General Ledger allows a producer to observe:
  - total dollars of income generated and expenses incurred in each income & expense category
  - total capital sales & purchases
  - total borrowing, repayments, and balances owed to creditors
  - total accounts receivable & payable
  - total assets in each asset category
- The General Ledger is the primary tool for preparing financial reports (balance sheet, income statement, cash flow statement).

BALANCE SHEET (NET WORTH STATEMENT)

- The balance sheet shows the financial position of business on a specific date.
- The balance sheet shows all assets, liabilities, and net worth.
- A properly constructed balance sheet separates assets and debts into current, intermediate, and long-term categories.
**INCOME STATEMENT (PROFIT & LOSS STATEMENT)**
- The income statement shows net income during a specified period
- The income statement includes income generated from production, operating & overhead expenses, depreciation expense, gains or losses on disposal of capital assets, and non-farm income and expenses
- The income statement enables the producer to identify profitability and financial efficiency

**CASH FLOW STATEMENT**
- A cash flow statement shows all sources of funds generated from income and capital sales.
- A cash flow statement shows all outlays for operating, capital purchases, and borrowing activities
- A cash flow statement can be prepared on a monthly, quarterly, or yearly basis
- A cash flow statement can be helpful in preparing the coming year's projected cash flow (commonly called the Cash Flow Budget)
- A cash flow budget is required by most lenders to demonstrate a borrower's ability to repay a loan
- It also provides a basis for measuring actual cash flow against the budget, and how variation from the budget will affect financial performance

**ENTERPRISE REPORTS**
- The enterprise report reflects profitability or performance of specific crop or livestock enterprises within the business
- Enterprise reports are derived from production and financial records
- Enterprise reports allow producers to determine how much each enterprise is returning to the whole farm
- Enterprise reports can help reduce or eliminate unprofitable enterprises and adopt or expand profitable enterprises

**PRODUCTION RECORDS**
- Production records provide the necessary information to analyze specific enterprises within the farm operation
**INVENTORY REPORTS**

- Inventory reports provide a listing of inventory
- Inventory reports can range from simple, hand-kept records (cattle tally for livestock) to complex computer generated records, grain or fruit & vegetable shipping operations
- Inventory reports are valuable for planning a marketing program or monitoring collateral pledged to a lender

**LABOR RECORDS**

- Every business is required to keep detailed records on each employee such as:
  - hours worked
  - gross pay
  - withholdings for Federal & State income tax and Social Security
- These details allow a manager to prepare payroll reports for state & federal government, as well as provide employees with W-2 or 1099 statements at the end of the year.
- Inventory reports provide a listing of inventory
- Inventory reports can range from simple, hand-kept records (cattle tally for livestock) to complex computer generated records, grain or fruit & vegetable shipping operations
- Inventory reports are valuable for planning a marketing program or monitoring collateral pledged to a lender

**DEPRECIATION SCHEDULE**

- The Depreciation Schedule includes details on all depreciable capital assets, and is used to calculate annual depreciation expense and gains or losses on capital assets sold
- The Depreciation Schedule should include:
  - description of asset
  - date of purchase
  - original cost
  - method of depreciation and useful life
  - accumulated depreciation
  - book value (original cost minus accumulated depreciation)

**NOTE** - Tax laws regarding depreciation change frequently, and may impact records (The Farmers’ Tax Guide is a good reference for current depreciation information, and is available at no cost from the IRS and most local extension offices).
**FAMILY LIVING EXPENSE RECORDS**

- A family living expense record allows for detailed recording of family living expenses, such as food, utilities, phone bill, insurance, personal, medical, etc.

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**STATE AND FEDERAL TAX RECORDS**

- The Government requires a set of reports related to state and federal taxes.

- The Farmers' Tax Guide is a good reference for information a producer must record to file returns properly.

- Also to plan record keeping properly, IRS Circular A - Agricultural Employer Tax Guide, and Circular E - Employer’s Tax Guide are good references for information.

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*Source: Record Keeping on the Farm, Vocational Agriculture Service, University of Illinois*