

Farm Records

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So, it's coming up on the dreaded tax day. In order to file your taxes, you need last year's expenses and income from the farm. If you are like many small farmers, you haul out the shoe box with (you hope!) all of the farm receipts. You struggle to put them into some sort of coherent order so you can put numbers on the tax form, or get numbers that won't totally embarrass you in front of your tax accountant.

Perhaps you're thinking about buying an accounting program for small businesses. There are several – Quick Books, Peachtree, lots of others. You can pay \$50 to \$2000 and more depending on how many bells and whistles you buy. But then you need to learn how to use the dang thing. There are classes (more money, and much time), or you can learn on your own (even more time). And you will need an up-to-date computer and printer, and a fail-safe back-up system (I have lost computerized financial records twice – awful both times). And maybe this is just too much time and money for your small farm.

Or you can hire a bookkeeper. This works great for some, but it is expensive, and it takes your hands off a part of your business you really need to follow. Again, it may be too much money, particularly for a start-up farm.

What a mess! You chose to be a farmer not a bookkeeper. But a farm is a business, and to succeed, you need to keep and know your numbers. So, where can you find a farm records system that is cheap, reliable, easy to use, and fills your needs? This article offers one such system.

Let's step back for a second and think about what a farm records system should do for you. Certainly tax records – you need to file your taxes, and you really don't want to go through an audit without good records. But you also need timely financial records to make business decisions. Good records will help you know your farm is making a profit, or going under. They help you focus your work on making a profit. You need to get out of the shoe box or your business will almost surely fail.

What else? How about records on where you and others on the farm spend time. Work-time records will tell you which crops suck up great gobs of time and return only a small fraction of the profit. Time records will also help you decide whether it is cost effective to buy various pieces of equipment. Are you keeping track of your cash, the check book, and the credit card charges? A good record system will allow you to keep track of all these things. And a good system will be easy to use, and reliable.

The Basic Records

I'm going to describe the system I use for my farm. I have come to this system after trying computerized systems (both commercial programs and spreadsheets I built myself), as well as a full double-entry hand system.

My system cheap and reliable, but it's not for everyone. It works for me because my farm is small and relatively simple. We have several crops, but my family and I are the only workers. I can use a fairly small number of expense, revenue, and labor-time categories and still keep track of all farm operations. I freely admit that if our farm becomes bigger and more complicated, I will need to move to a more elaborate system. But for now, my simple system provides all the information I need to control my farm business.

So what is my system? First, it is all hand written. I keep all my financial and time records in a single 3-ring binder. I write everything down on columnar accounting paper, using 25 column sheets for accounting records and 12 columns for time records. The accounting sheets are somewhat expensive -- lined paper would be cheaper and work as well if I taped sheets together and drew in my own columns. I write everything in pencil. Professional accounts always used pen back when they made hand entries, but I want to be able to correct my mistakes (I seem to make quite a few).

So what do my record sheets look like? First my financial records: Starting from the left side of the sheet, there is a column for date, and a wide column for written notes. The next 4 columns are for expenditures, broken down by method of payment -- farm checking account, credit card, cash, and the rare occasions I use the family checking account. I write down every time I use any of these payment methods to pay for farm expenses. The next 18 columns are for my expense accounts ("accounts" are simply categories of expenses). These include vehicle expenses, equipment, chainsaws, feed, etc. The last 3 columns are for categories of income (firewood, livestock, etc). I could add columns (tape on more paper) to add expense or income if I need (although at some point the sheet gets too big to handle). In this way I have been able to consolidate all my expenses and income in a single-spreadsheet.

My time records are similar to the financial records: In the 12 column sheet there is a column for date, and one for notes, then columns for different types of work -- firewood processing, goat management, general administration, etc.

How do I write down my information? For my financial records, I go through the following steps: Each activity has its own entry (where I use a separate line). So, for example, if I buy 3 bags of feed on January 20, I write in the date, the name of the business where I made the purchase and the check number if I wrote a check; in the correct payment column (check, credit card, cash) I write the total amount I paid for the feed; and finally I write the same number in the feed expense column. If I purchase two types of things with the same check (feed for the draft horses and medicines for the goats for example), I put all of that on the same line. If I make another purchase, with another check (or credit or cash), even if it is on the same day, I go down to the next line and make a new entry. When I earn money (for example, selling a cord of firewood) I use a separate line to write the date and customer in the first two columns, and the amount of the sale in the firewood income column. (Note: I keep all my receipts and invoices in chronological order in my files.)

Each month I check my records for accuracy by "balancing" this record sheet. I do this by adding all the numbers in the 4 payment columns (sum each column then sum the 4 sums), then independently add all the numbers in the expense columns. These two sums need to be exactly equal. If they are not, I made a mistake in entering the numbers, or in adding, and need to fix it.

When it comes to tax time, I balance the payments and expenses for the year, then independently sum all the numbers in the income columns. When I am done, I have my income and expense summary -- the numbers go right onto the tax forms.

For time records, every day I keep notes during the day on how I spend my time for different activities. At the end of the day I make an entry for that day (all on the same line), with the date, the amount of time in each appropriate work type column, and the total time for the day in the second column from the left -- the notes column. If the day was unusual, I also make a note in that second column (for example, I will note a vacation day so I remember why I entered no work that day). At the end of each month and each year I add the numbers in each column so I can see where I have spent my time.

With these financial and time records, I can begin to understand which crops increase my profit, and which drag me down. When we grew and sold market vegetables, I even kept rough estimates on time and expenses for each type of vegetable. I adjusted the list of crops I grew based on this information.

A Few Enhancements

The above is the most basic of a starter records system. There are enhancements you should consider. Even if you do on-line banking, I suggest you consider a check register. When you are starting this, it is probably less confusing if this is a separate sheet. It would have columns for date and notes, then 3 columns, one for checks written, one for deposit, and one for balance. Given the condition of our current banking system, I suggest that every month you balance your checking account and compare it to the records from the bank.

On this same sheet you could have three columns for credit card purchases. In one column you would write in each purchase, in the second column write in when you paid the card company, and balance in the third column. I strongly recommend you pay your credit charges every month. Remember if you pay the full amount of card purchases each month you pay no interest.

You can also add cash to this sheet. Again, you'll need three columns: one for paying out, one for adding to you cash "account", and one for balance. Imagine your cash funds as similar to your checking account. You have a pile of cash, like a checking account, and you withdraw cash from the pile to pay for things. Periodically you need to replenish the pile of cash. Some very successful small farmers actually keep this cash in a separate box, and only use money from that box for farm expenses.

By all means add triple columns for other checkbooks you may occasionally use for the farm. It is, however, best for your farm business to have a designated farm checking account, and use it and only it for all farm checking activity.

If you really want to run a smart business, add another two columns for farm income. In one column you would write in any income from the income columns on your financial spreadsheet. In the other column you would write down where that money went – to checking, cash, hopefully some to a designated farm savings account (if so you would want 3 more columns for a farm savings account).

All this information – checking, credit card, cash, savings, and income -- on a single sheet would give you a very complete and up to date picture of your money flow. You would know where your farm's money was coming from, and where it was going. You could see, over time, when you had lots of cash, and conversely when you were starved for cash. This single tool would save many small businesses from failure. (Note: you could eventually incorporate all of this information into your main expense and income sheet. I don't – just too complicated for my simple brain.)

A note on handling cash: Anyone who sells at a farm stand or farmer's market will bring in cash. It is tempting to use the cash box as a family bank – to buy groceries on the way home from market, pay for gas for the family car (not the farm vehicle), etc. After all, you just earned it and it's your money. Don't do this! You will surely lose track of your cash income, and thus have no idea how well or poorly your business is doing. Serious farmers bring all the cash home, count it all out, set aside the starting cash and return it to the box, and disburse the remaining income – to the checking account, the cash account box, or savings account.

Final comments

This system (any system) will fail if you don't use it. If you want to keep track of your farm business you need to write everything down. I like this system because I can write things down with a minimum of fuss – I just open my binder, unfold the sheet, and write. I don't need to wait until the computer boots up, or until it is free (we use only one computer in this house). I try to write everything down the same time each evening.

That's my system. It can be put together for less than \$10 (somewhat more if you use regular accounting sheets). It's a hand system, so I use a hand calculator for adding my columns (but I could add the old fashion way). For me, with a hand system, I am more likely to write stuff down if I can just pick up the my binder and do it I keep everything in a single binder so I can do all my records at the same time, and I try to do the records every day. I have come to this system because it is cheap, utterly reliable, and comfortable for me. But whatever records system you choose, make sure it is comfortable for you – that way you will be much more likely to actually use it!