



Record Keeping as a Form of Risk Management

Record keeping is becoming a critical task in production agriculture.

Lynn F. Kime, Senior Extension Associate The Pennsylvania State University Department of Agricultural Economics and Rural Sociology

Introduction

Record keeping is a topic few producers care to discuss or do. It can be time consuming and take valuable time away from your field work.

However, it is becoming a critical task in production agriculture.

- Currently, **government agencies, lenders, and insurance companies are requiring better and more accurate records.** Not only bushels per acre, income and expenses, but also weather records are becoming increasingly necessary.
- Another need for accurate record keeping which is becoming increasingly more important is **certification for Good Agricultural Practices (GAP) and Good Handling Practices (GHP) or organic production.** Both of these require you to not only keep good records but also provide documentation.

Types of Records to Keep

Financial

A detailed **check register** will enable you or your accountant to produce several financial records. With additional information you or your accountant can produce a balance sheet and performance ratios that will enable expert analysis of your business.

A **cash flow** is a record of all income and expenses listed by category. For example; you may have a category for each form of income such as corn, soybeans, hay, and livestock sold. You may also have categories for each expense such as fertilizer, chemicals, labor, and mortgages. A cash flow is like a moving picture because you will record all income and expenses in the applicable categories on a monthly basis. A record of your cash flow for a year will enable you to decide when additional cash is needed and when certain bills will be due enabling you to better plan for the future.

A **balance sheet** is a snap shoot of your business on a given day. These are usually completed at the end of your fiscal year to make consistent comparisons of your business. The information from a balance sheet can be then used to calculate specific ratios for financial analysis.

Production

Keeping records of you annual production is critical to analyze what worked and what did not. If you planted some crops using the no till method, you can analyze if the production was the same as previous years or not. Combining these records with the cash flow records will enable you to see that if you used no till and had a lower yield but lower expenses offset that yield, you were more profitable.

Production records should be kept for each field. In some cases where there are extremely large fields, keeping records by parts of fields will tell you where more fertilizer may be needed. Many of the newer harvesters may be equipped to provide this information. For crops that are not mechanically harvested, another form of record keeping should be developed. Find a method that works for you and keep track of production of each crop.

Weather

Records of the weather can be obtained from several sources. There may be web sites you can find that will provide temperature and precipitation records for an area. With the many micro climates in a given region or state these may not be accurate enough. How many times have you experienced rain on a part of your farm and not another? This may be especially true of hail.

As we all know, the best production methods and hybrids can fail do to weather conditions. Keeping daily records of precipitation and high and low temperatures is easy to accomplish and you can have a fairly accurate weather station for as little as \$25 to \$30 depending on your level of sophistication. A high/low thermometer, rain gauge, something to record them on, and about ten minutes a day is all that is needed. Having these records for your farm can speed up your claim process and provide the documentation to determine the reason for and when the crop failure occurred.

Another reason for weather records is for crop insurance. If you experience a hail storm, you will need to contact your insurance sales person and begin the claim

process. If your area experiences a drought, documenting the lack of rain will assist in the claim process. A claim of prevented planting may have to be filed even in a year of drought. If you experienced too much rain in the spring during planting time, then a drought in the summer, the adjuster may question or deny the claim. Accurate weather records will enable you to prove your claim.

Reasons for Record Keeping

Government Agencies

Many government agencies like the Farm Service Agency (FSA) have programs that require you to report the amount of acres you planted and what crops were planted on those acres. These reports are kept by FSA for any disaster or possible programs that may be available to you now or in the future. Without this reporting, you may not be eligible for their programs unless you can provide adequate documentation of your production. You will have to provide documentation when reporting to them each year but it is usually just after harvest when details are fresher in your memory and records are easier to find.

If you use pesticides in your operation you will need to comply with all of the record keeping necessary. Where ever you sell your production may require this information before receiving any of your production. Your state pesticide licensing agency may check your operation for these records especially if they receive a complaint from a neighbor or another person. These records may also save you valuable time and money in the future. Documentation of the chemicals used, time you applied the chemical, and weather conditions may mean the difference between a fine or a warning.

Lenders

Lenders want to see production, income and expense, and all financial records you may have. If you have not had a loan with a specific lender before, they will probably want to see at least three years of these records. If you can provide more years of records, it may be very beneficial to you. The more years of records you provide, the better the analysis they can perform. If you currently have loans with a lender, they will need to see records of your most current year. They will use the information to provide analysis to determine trends in your business. Are you growing your business or becoming stagnated or possibly the business is faltering. All of this can be determined by analyzing your trends over time.

Crop Insurance

Your crop insurance sales person requires you to report your planted acreage and your production each year. Again, you can use this information to determine trends in your production. Your sales person will report this information to the company and use the information to determine your Average Production History (APH) to make recommendations for your policy. If you do not provide the necessary information to your crop insurance company, your policy will not accurately reflect your production. Your production records will be invaluable if you have an insurance claim.

GAP and GHP

A new initiative born from recent concerns and recalls due to food-borne illnesses is the adoption of GAP and GHP. If you produce fresh fruits and/or vegetables for sale through larger distribution channels such as a packer, you should consider becoming certified. Many larger packers of fresh fruits and/or vegetables are now requiring that their growers become certified. This is because their customers (including the Federal government) are requiring that the products they purchase come from GAP and GHP certified producers. This will require another level of recordkeeping and documentation. You will have to designate a coordinator for your farm who will handle all the record keeping needed and work with the certifying agency. You will need to train your harvest workers about safe handling practices and document that training.

[More information concerning the certification process.](#)

Organic Production

One of the most rapidly increasing methods of production is organic. To become organically certified you will again need to work with a certifying agency and provide records and documentation of production practices for the three previous years before applying for certification. These records will include what forms of fertilizers and pesticides and all production practices used prior to applying for certification. Check with the certifying agency for your state for more information concerning what records are needed.

Methods of Record Keeping

Paper Methods

Many records are currently kept by the traditional paper method. This may involve a ledger book for financial records with a list of all debits and credits recorded daily. If this is your current method and it is adequate for you that is fine. The most important things are to keep records and to be consistent. Many very successful businesses still use pen and paper record keeping.

Electronic Methods

Software packages for record keeping are becoming as industry specific as production agriculture. It seems that most industries have software packages developed to assist with record keeping. This is very apparent in the program crop area. There are several companies who have developed software packages that will assist in record keeping from mapping to profit and loss statements for each field. You will need to spend considerable time in data entry when you begin

to use the package however, entering information after set up can be made very easy with the addition of a hand held computer.

Combination

You may also choose to use a combination of paper and electronic. If you are uncomfortable with computer use, keeping a daily record of events on paper then entering them into a computer may be your option. You may also have another family member (children or grandchildren may enjoy this) or employee use the computer. Recording all transactions and happenings on a daily basis is preferred however, during the busy planting or harvesting season, this may not be possible for smaller operations without a dedicated book keeper. As previously stated, whatever method you choose, be diligent and consistent.

Conclusion

Most producers do not enjoy the record keeping process. You will need to set aside a specific day or time to work on record keeping. Keep your records in a specific place (except for pesticide records that have a place designated by someone else), such as an office with a desk and file cabinets. This will make retrieving your records much easier.

One set of accurate records should be enough to satisfy all of your needs. If you keep good records of production, expenses, income, and weather, you should have all of the required information for any purpose, from crop insurance to lenders to your own needs. You should be able to make informed conclusions regarding the past and to plan for the future. Good records lead to better decisions and hopefully higher returns.