Record Keeping Basics

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IN OUR GRIT, OUR GLORY™

Overview

- Purpose of Financial Records
- Basic Records needed
- How to use Information to Make Decisions
- Additional Resources

Why Record Keeping Matters

- Supports management decisions
- Essential for cost of production and enterprise analysis
- Required for taxes, loans and compliance
- Foundation for understanding profitability

Purpose of Financial Records

- Internal Revenue Service
  - Summary of business transactions
  - Documentation to support your transactions
  - Documentation regarding assets
- Other entities
  - Cash flows, debt to equity ratios, asset values

Department of the Treasury
Internal Revenue Service

Publication 225
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Farmer's Tax Guide

For use in preparing
2020 Returns

Acknowledgment: The valuable advice and assistance given us each year by the National Farm Income Tax Extension Committee is gratefully acknowledged.

Contents

Introduction

You are in the business of farming if you cultivate, operate, or manage a farm for profit, either as owner or tenant. A farm includes livestock, dairy, poultry, fish, fruit, and truck farms. It also includes plantations, ranches, ranges, and orchards and groves.

This publication explains how the federal tax laws apply to farming. Use this publication as a guide to figure your taxes and complete your farm tax return. If you need more information on a subject, get the specific IRS tax publication covering that subject. We refer to many of these free publications throughout this publication. See chapter 16 for information on ordering these publications.

The explanations and examples in this publi-

What do Most People Struggle with

- Staying Organized
- Keeping up throughout the year
- Choosing software
- Preparing for tax season

What to Record

- Financial Records:
  - Income and expenses
  - Assets and Liabilities
  - Loans, interest, depreciation
- Production Records:
  - Crop inputs and yields
  - Livestock numbers, weights, feed consumption
  - Forage use and grazing
  - Chemical Pesticide applications

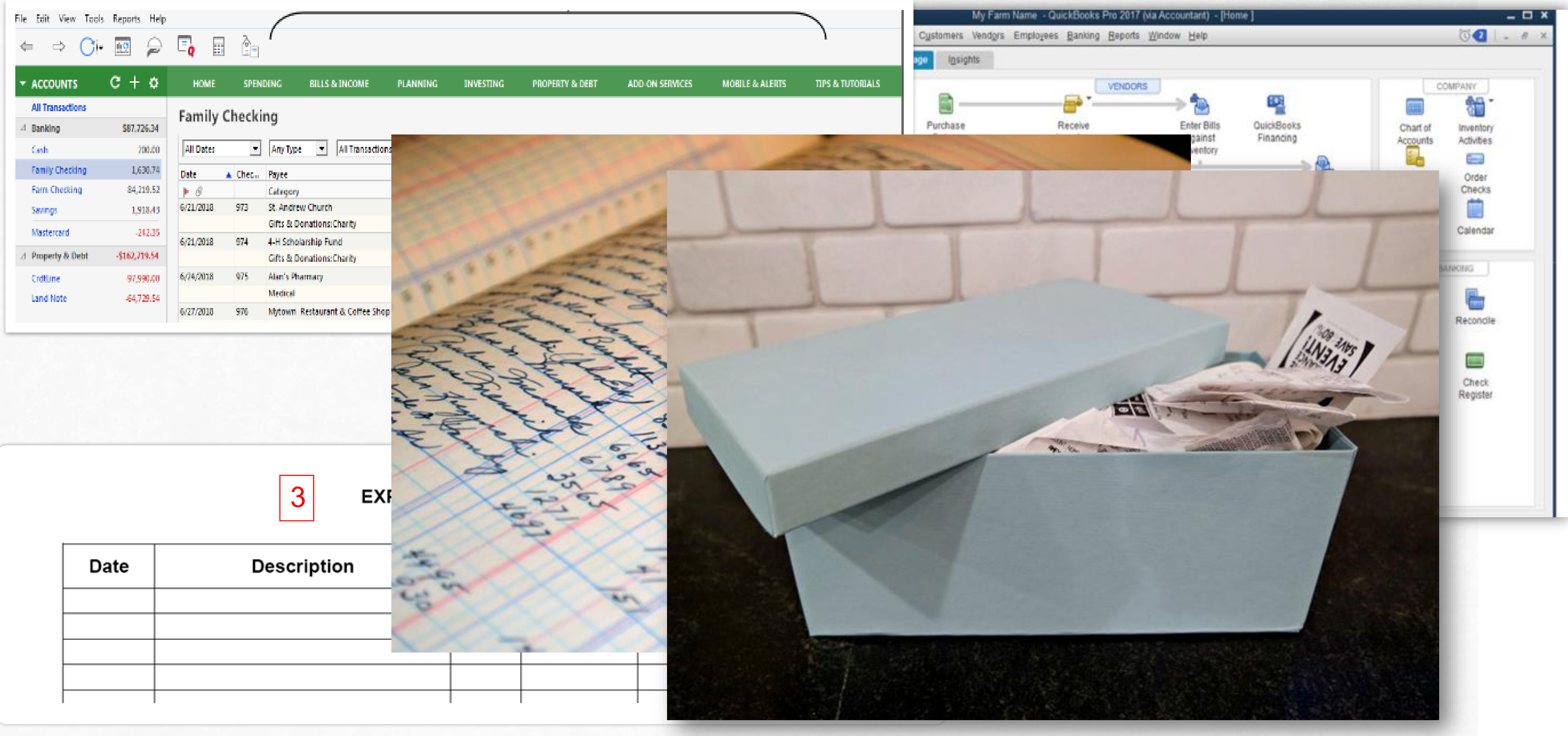
Cash vs Accrual Accounting

- Cash=when cash moves
- Accrual=when earned/incurred
- Why accrual gives a more accurate picture
- Examples: prepaid expenses, grain inventory, raised breeding stock

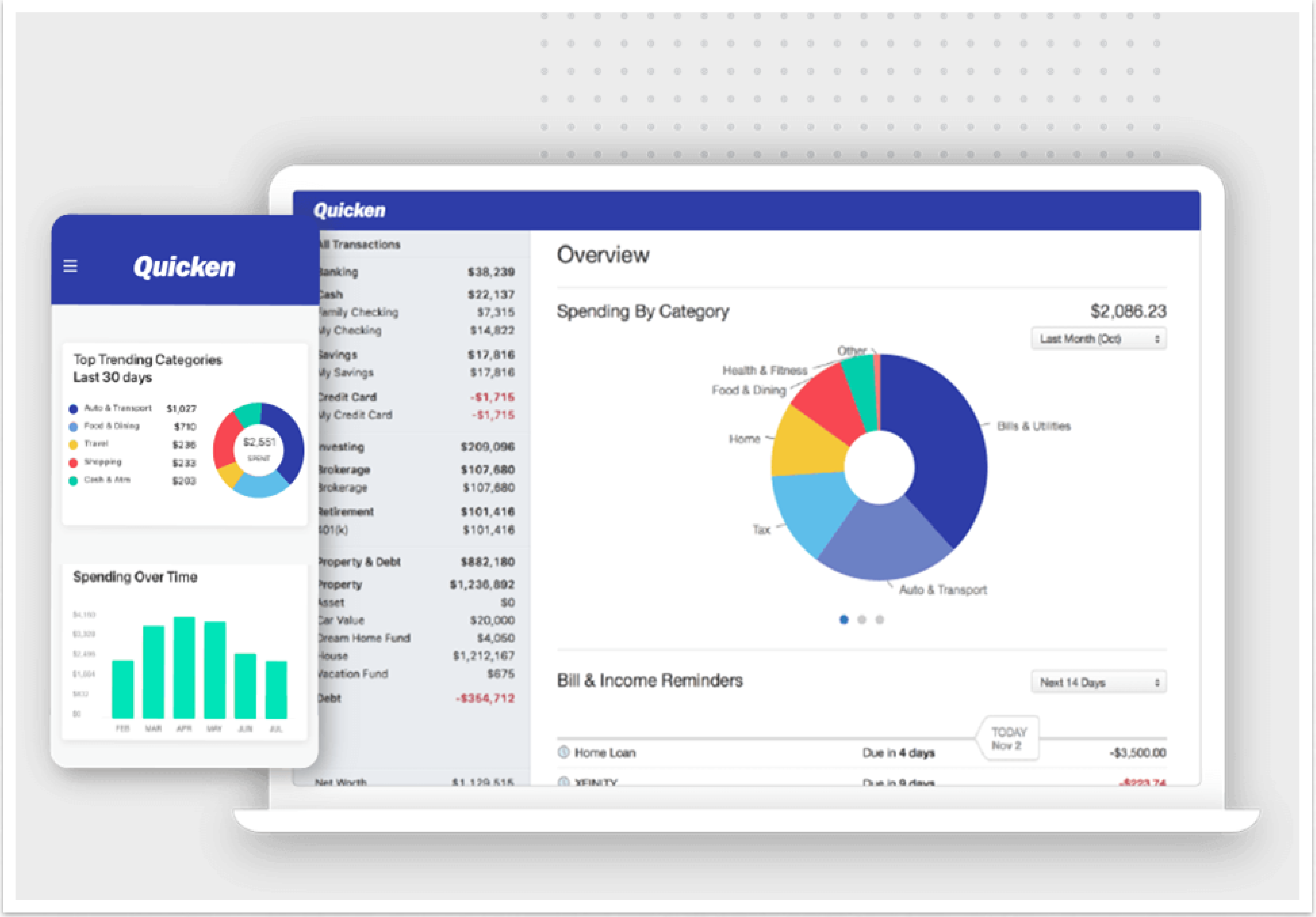
Building Your Record Keeping System

- Define goals: taxes, management, lenders
- Choose categories (chart of accounts)
- Decide on tool: paper, spreadsheet, or software
- Assign responsibilities and schedule

Ways to keep track of financial records



Quicken


Quicken
Quicken
Top Trending Categories
Last 30 days
$2,551
Spending Over Time
Overview
Spending By Category
$2,086.23
Last Month (Oct)
Other
Health & Fitness
Food & Dining
Home
Bills & Utilities
Tax
Auto & Transport
Bill & Income Reminders
Next 14 Days
TODAY
Nov 2
Home Loan
Due in 4 days
-$3,500.00
$38,239
$22,137
$7,315
$14,822
$17,816
$17,816
-$1,715
-$1,715
$209,096
$107,680
$107,680
$101,416
$101,416
$882,180
$1,236,892
$0
$20,000
Dream Home Fund
$4,050
$1,212,167
$675
-$354,712

QuickBooks

Sample Rock Castle Construction - QuickBooks Premier Edition 2015 - [Home]
File Edit View Lists Favorites Company Customers Vendors Employees Banking Reports Window Help Beta
Search Company or Help
Home Page
Insights
You are using a sample company file
Create a new company file
My Shortcuts
Home
My Company
Income Tracker
Calendar
My Shortcuts
View Balances
Run Favorite Reports
Open Windows
Do More With QuickBooks
Get Mobile Access
Add Credit Card Processing
Order Checks & Supplies
Recommended Services
Finance Your Business
VENDORS
Purchase Orders
Receive Inventory
Enter Bills Against Inventory
Manage Sales Tax
Enter Bills
Pay Bills
CUSTOMERS
Sales Orders
Accept Credit Cards
Create Sales Receipts
Estimates
Create Invoices
Receive Payments
Statement Charges
Finance Charges
Statements
Refunds & Credits
EMPLOYEES
Payroll Center
Enter Time
Pay Employees
Pay Liabilities
Process Payroll Forms
HR Essentials and Insurance
COMPANY
Chart of Accounts
Inventory Activities
Items & Services
Get Financing
Web and Mobile Apps
Calendar
BANKING
Record Deposits
Reconcile
Write Checks
Check Register
Print Checks
Enter Credit Card Charges

Best Practices for Digital Records

- Keep categories consistent
- Reconcile monthly
- Attache receipts/invoices
- Automate downloads when possible
- Back up or use cloud storage

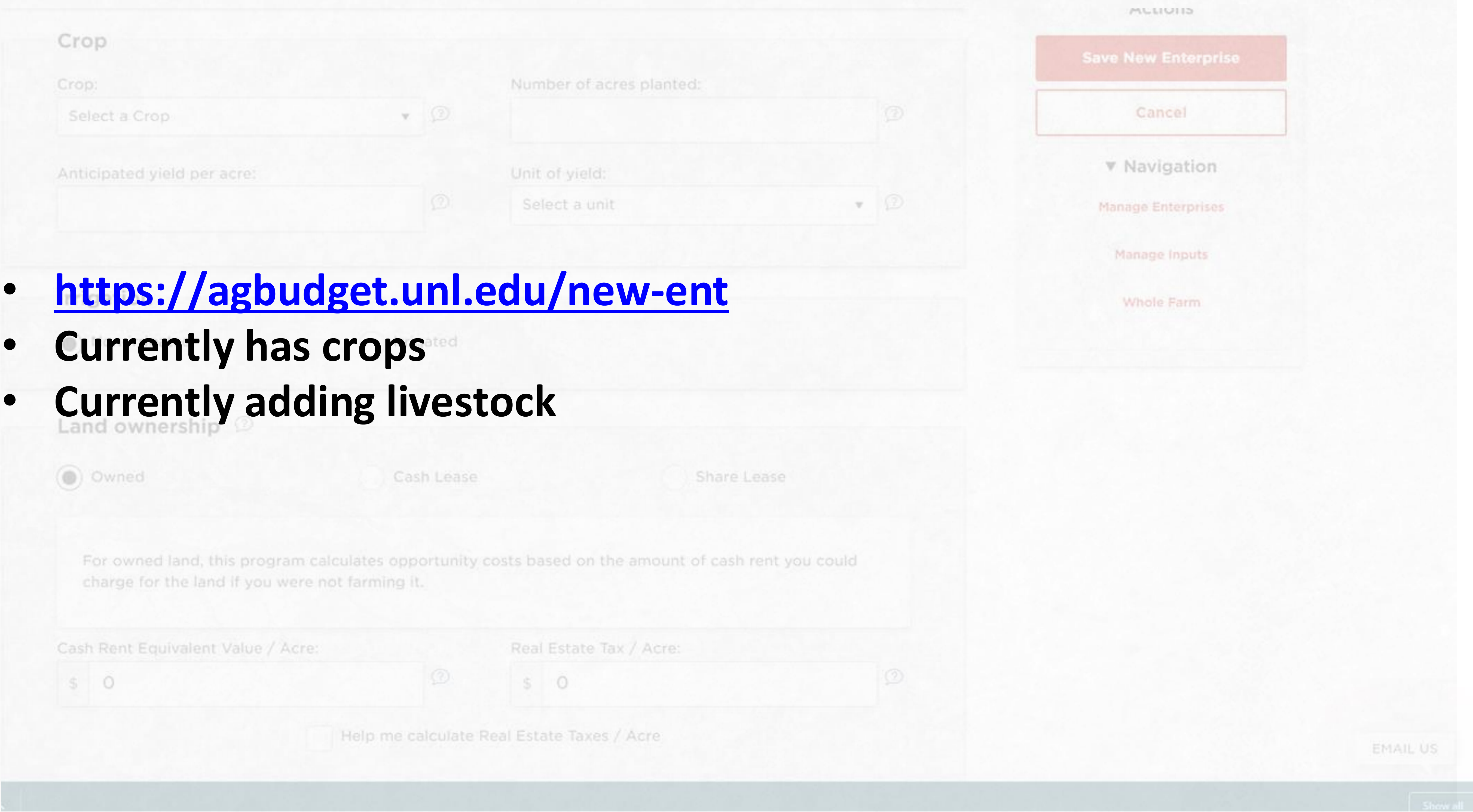
Production Records: Why They Matter

- Ties directly to cost of production
- Helps calculate break-evens
- Enables enterprise budgeting
- Improves grazing, feed, and storage decisions

Cost of Production and Enterprise Budgeting

- Link Records $\longrightarrow$ budgets $\longrightarrow$ profitability
- Importance of separating enterprises
- Examples: cow-calf, background, corn, alfalfa
- Use record-keeping data to update budgets

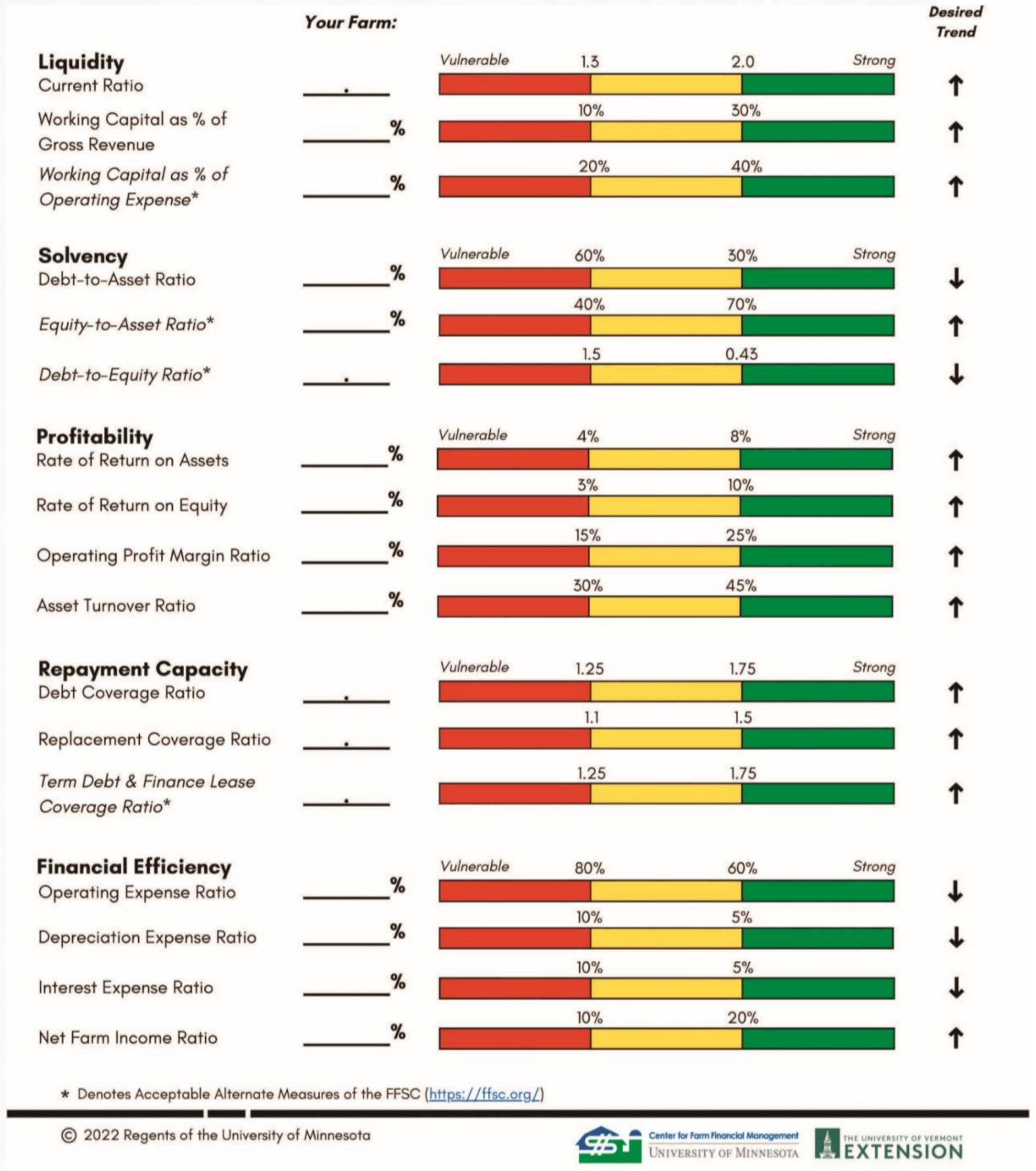
ABC budget calculator



- https://agbudget.unl.edu/new-ent
- **Currently has crops**
- **Currently adding livestock**

Reports Every Producer Should Generate

- Balance sheet
- Income statement
- Cash flow statement
- Enterprise cost summaries
- Key ratios (liquidity, solvency, repayment capacity)



	Your Farm:	Vulnerable			Strong	*Desired Trend*
Liquidity						
Current Ratio	___.___		1.3	2.0		↑
Working Capital as % of Gross Revenue	___%		10%	30%		↑
*Working Capital as % of Operating Expense**	___%		20%	40%		↑
Solvency						
Debt-to-Asset Ratio	___%		60%	30%		↓
*Equity-to-Asset Ratio**	___%		40%	70%		↑
*Debt-to-Equity Ratio**	___.___		1.5	0.43		↓
Profitability						
Rate of Return on Assets	___%		4%	8%		↑
Rate of Return on Equity	___%		3%	10%		↑
Operating Profit Margin Ratio	___%		15%	25%		↑
Asset Turnover Ratio	___%		30%	45%		↑
Repayment Capacity						
Debt Coverage Ratio	___.___		1.25	1.75		↑
Replacement Coverage Ratio	___.___		1.1	1.5		↑
*Term Debt & Finance Lease Coverage Ratio**	___.___		1.25	1.75		↑
Financial Efficiency						
Operating Expense Ratio	___%		80%	60%		↓
Depreciation Expense Ratio	___%		10%	5%		↓
Interest Expense Ratio	___%		10%	5%		↓
Net Farm Income Ratio	___%		10%	20%		↑

* Denotes Acceptable Alternate Measures of the FFSC (https://ffsc.org/)

Center for Farm Financial Management University of Minnesota
The University of Vermont Extension

Records for Compliance

- Pesticide applicator records
- Manure and nutrient management
- Ag labor records (hiring, onboarding)
- Insurance documentation (LPR, PRF, etc.)

Year-Round Workflow

- Daily: transactions, receipts
- Weekly: categorize, sync downloads
- Monthly: reconcile accounts
- Quarterly: review financials and update budgets
- Annually: full financial analysis

Getting Started: 5 Steps

- Inventory current records
- Choose/update your system
- Create your chart of accounts
- Set up automatic backups
- Start a monthly reconciliation routine

CAP Tools and Resources

- Know your number know your options online course
- ABC-Ag Budget Calculator
- Quicken for farm and ranch online program
- QuickBooks for farm and ranch online program

Thank You

Contact information

- Shannon Sand ssand2@unl.edu
- 308-696-6733

- Rural response hotline: 800-464-0258

References

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- http://agecon.okstate.edu/quicken/files/AGEC-266web-2011.pdf
- http://agecon.okstate.edu/quicken/files/2018%20Quicken.pdf
- https://slideplayer.com/slide/5072638/
- https://www.youtube.com/watch?v=yH2_3VMxlek&list=PLlldDb7IZYqI2IaBatuez4LRk1vmc_HGH&index=2
- https://www.agcredit.net/sites/default/files/toolbox-documents/building_a_balance_sheet.pdf
- https://ag.purdue.edu/commercialag/Pages/Resources/Finance/Farm-Finance-Spreadsheets.aspx
- https://www.westernagcredit.com/files/financial_tips/Balance_Sheet.pdf
- http://agecon.okstate.edu/farmbook/files/Farm_Balance_Sheet.pdf
- https://extension.umn.edu/farm-finance/income-statement
- https://www.extension.iastate.edu/agdm/wholefarm/html/c3-25.html
- https://www.agmanager.info/finpack/farm-financial-scorecard
- http://www.montana.edu/softwaredownloads/financialmgtdownloads.html

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