



Financial Record Keeping for Farmers and Ranchers

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Oklahoma Cooperative Extension Fact Sheets
are also available on our website at:
<http://www.osuextra.com>

A good record-keeping system provides answers to important financial management questions. Records aid the farm manager in evaluating production, economic efficiency, and profitability. Good record-keeping systems help answer these questions:

- Do present production operations provide sufficient income to generate a profit as well as cash flow to service debts and pay family living expenses?
- What are the production costs?
- What prices and yields are needed to break even?
- What are the potential income and expenses for the coming year?
- If an alternative enterprise is tried, how will it affect cash flow and profitability?

This fact sheet focuses on the financial record-keeping systems readily available in Oklahoma.

Record-keeping Alternatives

Farm financial accounts may include personal transactions, monetary value of transactions with persons or businesses off the farm (product sales, input purchases, etc.), balance owed to or receivable from outside entities, and so on. The forms of accounting range from simple records on a cash basis (checkbook transactions register) to the more complicated double-entry accounting. Generally, double-entry record systems are only adopted by large complex farm operations. The next step is to consider what kind of system is best suited to the producer's needs, budget, and skill level.

Computerized Records

Computerized record-keeping systems are an increasingly affordable alternative. Computerized records are especially useful for manipulating data for different types of reports. Although a computerized records system may not reduce the amount of time spent keeping records, computerized records make financial summaries for analysis simple, efficient, and effective for management needs.

For instance, an annual or monthly cash flow statement based on actual income and expenses can be generated in a matter of seconds. Income and expenses can be sorted by enterprise so farm managers know where "profit centers" are on the farm. Whole farm or enterprise budgets can be prepared and compared to actual transactions so financial progress

can be monitored at regular intervals. Graphs prepared with a few keystrokes can show where cash is coming from and where it is going, and are invaluable in getting a quick feel for the farm's financial situation.

A number of user-friendly commercial software products are now available that can be adapted for farm use. One such software program that is appropriate for farms and ranches requiring only cash records is Quicken®. Quicken is user-friendly, widely available, and inexpensive. A set of categories for farm and ranch use that can be imported into a file is available from the OSU Agricultural Economics Department. More advanced record keepers may desire to use QuickBooks®, which is a double-entry accounting system.

More information on using Quicken for farm financial record-keeping is available from the Department of Agricultural Economics, Attn: Damona Doye, 515 Agricultural Hall, Oklahoma State University, Stillwater, OK 74078-6026. Alternatively, visit the OSU web site: www.agecon.okstate.edu/quicken/

Hand-Kept Records

The hand-kept record book may be a suitable system for smaller or less complex operations. The record book is simply updated periodically as checks are written and deposits are made. Two alternatives are offered by the OSU Cooperative Extension Service: the Farm Family Account Book and the Oklahoma Loose-leaf Enterprise Record Book. Other types of ledgers are often available from agricultural lenders, farm supply dealers, and farm management firms.

The Oklahoma Farm Family Account Book (publication E-823) provides sufficient information for management of a small or part-time farm. Items that may be recorded in this book are farm income and expenses by category (sale of purchased livestock, rent, royalty income, etc.), crop and livestock production records, liabilities, asset inventory, and family living expenses. Copies of this account book can be purchased from University Mailing Services, 109 Printing Building, Oklahoma State University, Stillwater, OK 74078-0505, or phone 405-744-5385.

¹ Reference within this publication to any specific commercial product, process, or service by trade name, trademark, service mark, manufacturer, or otherwise does not constitute or imply endorsement by Oklahoma State University Cooperative Extension.

The Oklahoma Loose-leaf Enterprise Record Book is a notebook that allows whole farm and enterprise accounting. Selections include farm receipts, farm expenses, depreciation, inventory, real estate, credit, hired labor, financial statements, family living, and supplemental records. These may include the value of farm products consumed at home, crop and livestock production, or a monthly labor summary. Separate enterprise accounting allows users to determine the relative profitability of crop, livestock, or horticulture enterprises. Copies can be purchased from the Department of Agricultural Economics, Attn: Damona Doye, 515 Agricultural Hall, Oklahoma State University, Stillwater, OK 74078-6026, phone 405-744-9836 or e-mail ddoye@okstate.edu

Financial Records Needed

The amount of information collected, the method of recording data, and the structure of final reports vary between farm record systems. Every farm manager must determine how much information is needed for management purposes and what system will best provide the desired information for an economical cost. In selecting a record-keeping system, choose the method appropriate to the size and complexity of the farm or ranch business. As a rule, keep only the records with an expected return greater than the cost of keeping them.

A farm financial record system should include at a minimum an inventory of assets and liabilities, a transaction journal listing income and expenses, copies of tax forms filed (including the depreciation schedule), and employment records. A good financial record system will also include a balance sheet (summing the values of assets and liabilities), an accrual-adjusted income statement showing receipts less expenses, a cash flow statement showing the movement of cash, and enterprise budgets. The data needs to be timely, accurate, and complete.

Records should be kept for tax and legal reasons for a certain period. The chart below summarizes general practices. For tax purposes, it is necessary to hold onto returns and the supporting information at least three years, as the IRS has the right to order an audit. Retain tax returns that contain gains or losses on sales or other complicated transactions at least six years. You can decide if it is of value to retain tax forms longer than the IRS requires. Certain records such as investment records and canceled checks used for tax calculations should be retained for 6 years after the tax filing date.

Cancelled checks	3 years or 6 years if they have significance for tax purposes (store with the tax form copy). For certain high dollar purchases, store with the owner's manual.
Investment records	6 years after tax deadline for the year of sale
Loan agreements	Until updated
Receipts for large purchases	Until item is sold or discarded
Service contracts and warranties	Until item is sold or discarded
Tax returns	6 years from filing date

Utilizing Records for Farm Management Analysis

A good farm information system begins with record-keeping. Summarizing the records provides answers to farm management questions. The information collected is useful for forward planning, implementing farm plans, controlling the operation, and filing reports. Farm inventory lists, financial statements, and budgets (partial, enterprise, whole farm) are examples of useful management tools.

A farm inventory lists all physical assets at a specified date, including the values of all assets or property, and the value of all debts or liabilities. A beginning and ending inventory for the accounting year are needed for accurate calculations of net farm income. Taking an inventory involves two processes: examining physical assets and assigning values to the assets. The Oklahoma Cooperative Extension Service (OCES) has two fact sheets that can assist you with the process of recording asset and liability information: F-791 "Schedule of Assets," and F-792 "Schedule of Liabilities."

Financial statements are used for assessing financial performance and planning future financial strategies. Farm records are the basis for developing these statements. A cash flow is used to evaluate the flow of money. This helps to determine when cash is available for debt payment. It also shows whether there is a surplus or deficit of money in a particular time period, pointing out when savings or a credit line may be needed.

A balance sheet (also referred to as a net worth statement) is a summary of the values of assets and shows the amount of the owner's equity in the business. The income (profit or loss) statement shows whether the business is profitable or not. Financial ratios developed using information from the financial statements reveal other strengths and weaknesses of the operation. With this information available, the farm manager is able to seek ways to enhance financial performance. For assistance with these financial statements, refer to the following Extension Fact Sheets:

- F-751 Developing a Cash Flow Plan
- F-752 Developing a Balance Sheet
- F-753 Developing an Income Statement
- F-790 Evaluating Financial Performance and Position
- F-208 Farmers in Transition: Evaluating Options for Change

Oklahoma farmers and ranchers can call on the Intensive Financial and Management Planning Support program to receive free and confidential farm business planning at 1-800-522-3755. IFMAPS may also be contacted through a local Extension Educator-Agriculture.

OSU has developed a set of enterprise budgets to help the farm manager evaluate individual enterprises. These budgets are interactive allowing the user to adapt the budget for regional soil conditions and individual production practices. To obtain a copy contact your local Extension educator or the Department of Agricultural Economics, Attn: Damona Doye, 515 Agricultural Hall, Oklahoma State University, Stillwater, OK 74078-6026.

Many other OSU Fact sheets on more specialized topics, such as tax planning and management, are available from your local OSU Extension Office or via the Internet at: <http://www.osuextra.com>

Production record systems are also important for decision making. Production records provide physical data for measuring production efficiency, such as rate of gain for stockers on wheat pasture, crop yields for different varieties of sorghum, and/or calving rates for the cow-calf operation. OSU Current Report, CR-3279 "Cow-Calf Production Record Software," lists the features of some production record systems available commercially.

Summary

To be successful in the long run, a producer must be a good financial manager. Accurate and efficient production, marketing, and financial management decisions require extensive information. Decision making will be easier if you adapt a complete record-keeping system, develop the discipline to

maintain it, and learn to effectively interpret and use your records. Record-keeping and accounting can be tedious, complex, and time consuming; however, it can also be financially rewarding. Records can be used to correct problems before they get out of hand and provide essential data for monitoring farm financial progress.

Record-keeping alternatives available to producers include simple or sophisticated hand-kept record books as well as commercial software packages. For example, educational materials have been developed to demonstrate ways to use Quicken for farm financial records. Call on your local Extension Educator or Agricultural Economics Specialists for help in choosing a system or learning to use financial and production records. The long-run success of your business depends on your efforts to be a successful manager.

The Oklahoma Cooperative Extension Service

Bringing the University to You!

The Cooperative Extension Service is the largest, most successful informal educational organization in the world. It is a nationwide system funded and guided by a partnership of federal, state, and local governments that delivers information to help people help themselves through the land-grant university system.

Extension carries out programs in the broad categories of agriculture, natural resources and environment; family and consumer sciences; 4-H and other youth; and community resource development. Extension staff members live and work among the people they serve to help stimulate and educate Americans to plan ahead and cope with their problems.

Some characteristics of the Cooperative Extension system are:

- The federal, state, and local governments cooperatively share in its financial support and program direction.
- It is administered by the land-grant university as designated by the state legislature through an Extension director.
- Extension programs are nonpolitical, objective, and research-based information.
- It provides practical, problem-oriented education for people of all ages. It is designated to take the knowledge of the university to those persons who do not or cannot participate in the formal classroom instruction of the university.
- It utilizes research from university, government, and other sources to help people make their own decisions.
- More than a million volunteers help multiply the impact of the Extension professional staff.
- It dispenses no funds to the public.
- It is not a regulatory agency, but it does inform people of regulations and of their options in meeting them.
- Local programs are developed and carried out in full recognition of national problems and goals.
- The Extension staff educates people through personal contacts, meetings, demonstrations, and the mass media.
- Extension has the built-in flexibility to adjust its programs and subject matter to meet new needs. Activities shift from year to year as citizen groups and Extension workers close to the problems advise changes.

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