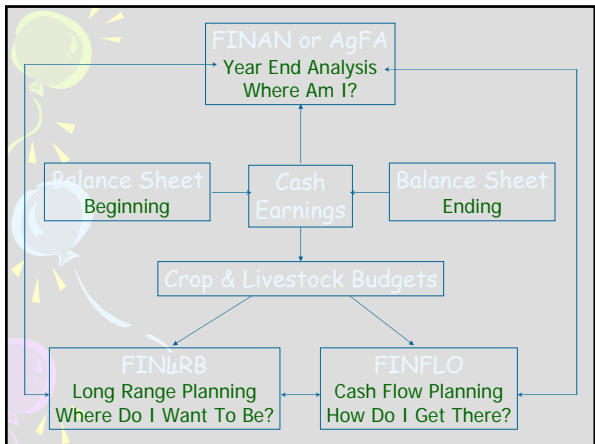


Farm Accounting Concepts...

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- ## Reasons for keeping Records:
- Tax Reporting
 - Lender Requirements
 - Historical Record
 - Budgeting / Forward Planning

- ## Three Requirements of Farm Records...
- They must be complete
 - Accurate
 - Used

- ## They must be complete...
- Type of the trans. (cash or credit) (What)
 - Date of transactions (When)
 - Purpose of the transaction (Why)
 - Amount of the transaction (How Much)
 - Track physical quantities (if possible)

- ## The Big Three:
- Income State
 - Balance Sheet
 - Cashflow Statement
 - Summary of financial activity over time
 - Snap shot of business assets at a point in time.
 - A recap of the changes in financial assets over time.

Types of Accounting:

- Cash Basis Accounting (99% of farmers file taxes using cash basis accounting).
 - Income is recognized when cash is received, expenses are incurred when cash is paid.
- Accrual Accounting (99% of non-farm business are required to use accrual basis accounting)
 - Income and Expenses are recognized when they occur.

Common Accounting Docs:

Balance Sheets *Income Statements:*

Cashflow Statement *Pro-forma Projections*

Sources & Uses of Funds

Accounting Terms

Assets	Income
Liabilities	Expenses
Owner's Equity	Non-cash inventory adjustments
	Profit or Loss

1) The Balance Sheet

- Things to consider:
 - Assets = Liabilities + Equity
 - The ratio of current to non current assets should be roughly equal to or less than the ratio of current to non current liabilities
 - In general, with a farm that remains the same size, you would expect to see debt decrease
 - How are the assets being valued? (Later)

1) The Balance Sheet

- Shows the asset value of the firm at a particular moment
- Shows how much of the assets are funded by debt and equity

ASSETS		LIABILITIES AND EQUITY	
Current Assets	\$250	Current Liabilities	\$125
		Non Current Liabilities	375
Non Current Assets	750	Total Liabilities	500
		Owner Equity	500
Total Assets	\$1,000	Total Liabilities and Owner Equity	\$1,000

Tips for better record keeping:

1. Never, never net it out
2. Go through all steps
3. Use a checking account(s)
4. Separate business from personal
5. Do periodic accuracy checks
6. Use printing calculator or computer



Income Statements

- Cash Operating Income
 - Cash Operating Expenses
- =Net Cash Income
- +/- Inventory Changes from balance Sheets
- +/- Change in Capital Accounts
- = Net Farm Income



NFI (Net Farm Income)

- Net Farm Income = returns to farm operator's unpaid labor, management, and equity capital.
- Corporate Entities have no unpaid labor



NFI – charge of unpaid labor

- The concept of a residual claimant:
 - We can assign a value to labor
 - Or
 - We can impute a cost equity capital
- Lenders typically prefer a rate of return on capital