

Information Management

Keeping Score in Your Farm Business.

- Gathering
- Assembling
- Validating the data

Farm Records--Overview

- Requirements
 - Complete
 - Accurate
 - Used

Uses of farm records

- Service tool
- Diagnostic tool
- Indicator of progress
- Forward planning device

- *Farm* accounting. Drawn from accountants but geared to the farm business

- Useful accounting definitions and considerations
- Design your farm accounts to fit the characteristics of your farm business and your enterprise mix
- Track physical quantities and \$\$\$!

- **Some useful accounting principles for farm record keepers**

- Account for each business separately
- Keeps accounts in a definite time frame
- Handle small & insignificant amounts in the most practical & expedient manner
- Records kept for the current accounting period should be consistent with the records from the preceding periods

Farm Accounting Principals

- The accounting system should use conservative values that would tend to understate rather than overstate the net assets and income from the business
- The accounting system should be as bias free as possible and use data that can be easily verified
- Historical costs are generally used in accounting measures, but there can be some "issues" with this

Farm Accounting Principals

- It is assumed that the business is a going concern and has an indefinite life
- It is necessary to have full disclosure of all relevant facts about the financial statements and data

Farm Accounting Principals

- Revenues should be matched with expenses to determine income for a specified period
- Revenue should be recognized in the accounting period in which the sale occurred

Tips for better record keeping:

1. Never, never net it out (don't take short cuts)
2. Use a farm & personal checking accounts
3. Use farm & personal credit &/or debit cards
4. Do periodic accuracy checks
5. Use a computer and make regular backups!

Time Perspective

- Balance sheets are snapshots of ownership at a given point in time
- Income statements are a summary of financial transactions over a period of time.
- Sources and Uses of Funds Also covers a period of time (usually one year).

•Kinds of records to keep

- Some farmers keep only those that are required (taxes) or other governmental regulations) (Life style farmers)
- Managers keep records that help them make better decisions for more profit. Useful for analysis and budgeting
- Good financial records keep all business partners informed.

It's accrual world! (Except of taxes)

- **Cash.** Income is income when it is received. Expenses are expenses when they are paid
- **Accrual.** Income is income when it is accrued and expenses are expenses when they are incurred
- 99% of farmers file income taxes on a cash basis

Electronic Farm Accounting Options

- Many Cash & Accrual Options
 - Common Cash Record Keeping System: Quicken, or even Excel (Single Entry Systems)
 - Accrual Systems: Quickbooks, Redwing, AAIMS & many others (Double Entry Systems)

NFIFO

- NFIFO is the returns to unpaid
 - Labor
 - Management
 - Equity Capital
- Unfortunately we must assign a value to either labor & management or to equity capital in order to make the other a residual claimant

Assume NFIFO = \$100,000

- Assume total farm equity = \$1,000,000
- There are 2 full time unpaid owners each worth \$35,000
- What would the rate of return on farm equity be?

ROROA

- Assume \$1,000,000 in Farm Assets
- Assume NFIFO = \$100,000
- Assume Farm Interest Paid was \$40,000
- Assume unpaid labor was \$40,000
- Assume total liabilities were \$400,000
- What would the rate of return on assets be?

Solution:

- $\text{NFIFO} + \text{Farm Int. Paid} - \text{Unpaid Labor} /$
- Total Farm Assets
- $(\$100000 + \$40000 - \$40000) / \$1000000 = 10\%$

ROROE

- Assume \$1,000,000 in Farm Assets
- Assume NFIFO = \$100,000
- Assume Farm Interest Paid was \$40,000
- Assume unpaid labor was \$50,000
- Assume total liabilities were \$400,000
- What would the rate of return on assets be?

ROROE – return on equity!

- \$100000 (NFIFO) - \$50000 (unpaid labor)
- =\$50,000 return to equity capital
- Total Equity = Assets – Liabilities or \$600000
- $\$50000/\$600000=8.033\%$

Financial Leverage

- When $ROROA > \text{Weighted Avg Int. Rate}$
 - The rate of return on equity will increase with each \$ borrowed.
- When $ROROA < \text{Weighted Avg Int. Rate}$
 - The rate of return on equity will decrease with each \$ borrowed