

Farm Record Keeping

Accurate and up-to-date records are essential to successful farm management. Before any financial analysis, budgeting, or financial decisions can be made farm records must be maintained. Managers usually keep farm records for three reasons:

- Legal requirements - such as income tax purposes.
- Obtaining credit - such as filling out loan applications.
- Management tool - such as planning and budgeting.

It is surprising to see the number of farms that have little or no record keeping system. Reasons given for this include, "I don't have time", or "I don't need to bother". Some farmers simply save up all their receipts and at year end, carry it all off to their accountant. Therefore, there is no accurate measure of profitability or production costs until months after the fiscal year ends when the accountant prepares financial statements.

Most farmers do keep records but primarily for the first two reasons stated above, and not as a management tool. Records should also be used to:

- Evaluate past performance of the operation,
- Provide a financial picture of the present situation, and
- Serve as a planning guide for future decisions.

A record keeping system should go beyond the basic listing of income and expenses, it should be used to prepare the following:

- An income and expense statement which reflects the profitability of the farm. This is more accurately done using an accrual statement, which further accounts for inventory, accounts payable, and receivables, as well as depreciation expense.
- A balance sheet or net worth statement which is a listing of all assets and liabilities of the operation. This reports the financial strength and progress of the business.
- A cash flow which provides either a monthly or quarterly listing of all inflow and outflow of money from a business. It shows possible shortfalls in cash and thus allows for corrective measures. Unfortunately, this is usually the most neglected management tool.

Beyond financial record keeping is production record keeping. Essential areas include breeding, feeding, harvesting, and field records. The less accurate your production records, the less accurate your financial projections will be.

Once these records and statements are available, proper analysis can be carried out.

- Compare past records to the present and look for progress in the business.
- Areas where costs have risen and consider how they could be lowered.
- Compare volume of product and cost of production.
- Look at level of debt repayment.
- Is financing required?
- What is your most cost efficient crop?
- Where have problems occurred in the past and where will they likely occur in the future?

This is what planning is all about, reviewing past performance and using the knowledge gained to make future endeavours easier and more successful.

All of this analysis and more can be obtained with proper record keeping, but it has to start with accurate and up to date records. Record keeping is but one step in successful farm management. If you feel that your present system is not able to cover the areas listed above then take the step to expand and improve upon it.

Anyone looking for information on farm record keeping, please contact your Regional Farm Management Specialist.