The Importance of Good Financial Record Keeping

Today’s complex world economy and the rapid pace of the farming industry makes it difficult for producers to manage a farm enterprise the way their parents may have managed it 30 years ago. Without a proper understanding of record keeping and its current and future implications, the farm operator will not make it very far in today’s business environment. While you may not have control over the weather and only limited ability to manage diseases and insects, you have the power and the responsibility to monitor the farm’s financial performance. The first and most important step in taking control of your farm operation’s financial well-being is to keep good and accurate financial records. Do you want to know where your business is going? Do you want to avoid jeopardizing your borrowing capacity? If you answered “YES” to these questions, then detailed and accurate financial record keeping is for you.

There are three main reasons farm operators should keep good financial records. First, good financial records are essential for reporting income tax returns. Without accurate records, a farmer can under-pay or over-pay on their taxes. This might get the farmer into trouble if there is an unexpected IRS audit of records. Secondly, good records are essential in obtaining credit. Bankers want to see a balance sheet, income statement, and cash flow statement before they loan money to any business. Finally, accurate financial records along with production data are important in making decisions about the farm enterprise. Having the information contained in an accurate record keeping system helps a farm operator make decisions about how to farm more efficiently and profitably.

Keep the following guidelines in mind when implementing or reviewing your financial record keeping system. First, keep it simple! If the record keeping system is unnecessarily complicated, you are more likely to make mistakes. Second, maintain financial records that have the appropriate level of detail depending upon the complexity of your business. A more complex farm operation requires a more detailed system. Third, make sure that your records provide essential information on a timely basis. Fourth, consider including the following components when constructing your record keeping system: (1) a business checking account to handle business transactions; (2) an income ledger by calendar month; (3) an expense ledger by calendar month; (4) an inventory ledger for physical counting and valuation; (5) a depreciation schedule for pro-rating original costs of assets; (6) a balance sheet to determine net worth; (7) an income statement to determine net profit or loss; (8) a cash flow statement to measure flow of funds. Following these guidelines will deliver positive results for your farming business.

When implementing your record keeping system, you may want get the assistance of a computer software program. There are numerous kinds of farm record keeping software packages available on the market.—Examples include QuickBooks, Quicken, PCMars, Red Wing, et cetera. Most software packages range in price from $30 to $1000. Products vary in price with the level of computing power of each package. Microsoft Excel may also be an option that you may already have installed on your computer. Computer software can help you establish and organize your records; however, no program will do all of the work for you. Research the different options before deciding on the right system for your operation. Look for one that fits
your specific farm operation. It should provide all the resources you need, not only financially but also managerially.

For help or more information related to farm record keeping, please contact Whitney Wiegel, MU Extension Agricultural Business Specialist, (660)584-3658.