

# Getting Started with Farm Accounting Farm Financial Management

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# Three Critical Areas of any Business Operation

- Production/Services
- Marketing
- Finance

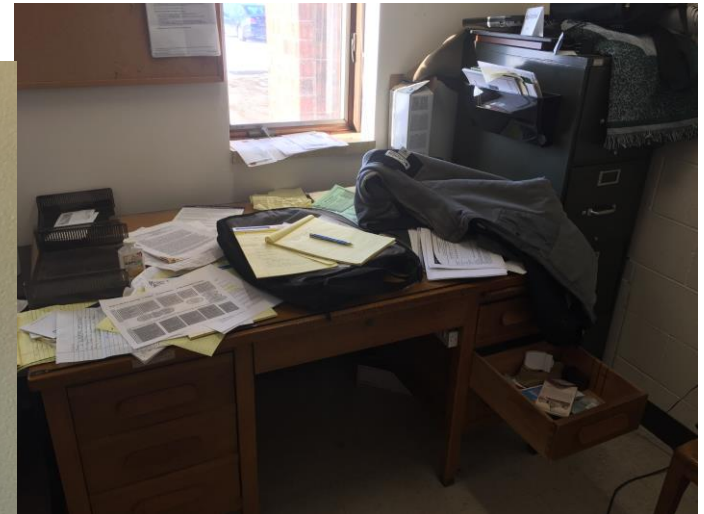


# Separating the Business from Personal

- Business Checkbook
- Business Credit card



# Organization



# Record Keeping

- Monthly or Weekly Recording of Transactions
- Ledger recording
- Receipts, Bill of Sale,



# Ledger Recording

- Date
- Record number
- Vendor
- Amount
- Transaction type
- Accounts affected
- Split between accounts



3299 Pat's Motorsports 12/5 116.55  
snowplow - fix electrical

MSUFCU U Save 12/9 18.76  
Heat Tape, insulation

3300 Ritchie Propane 12/10 365.00  
Propane

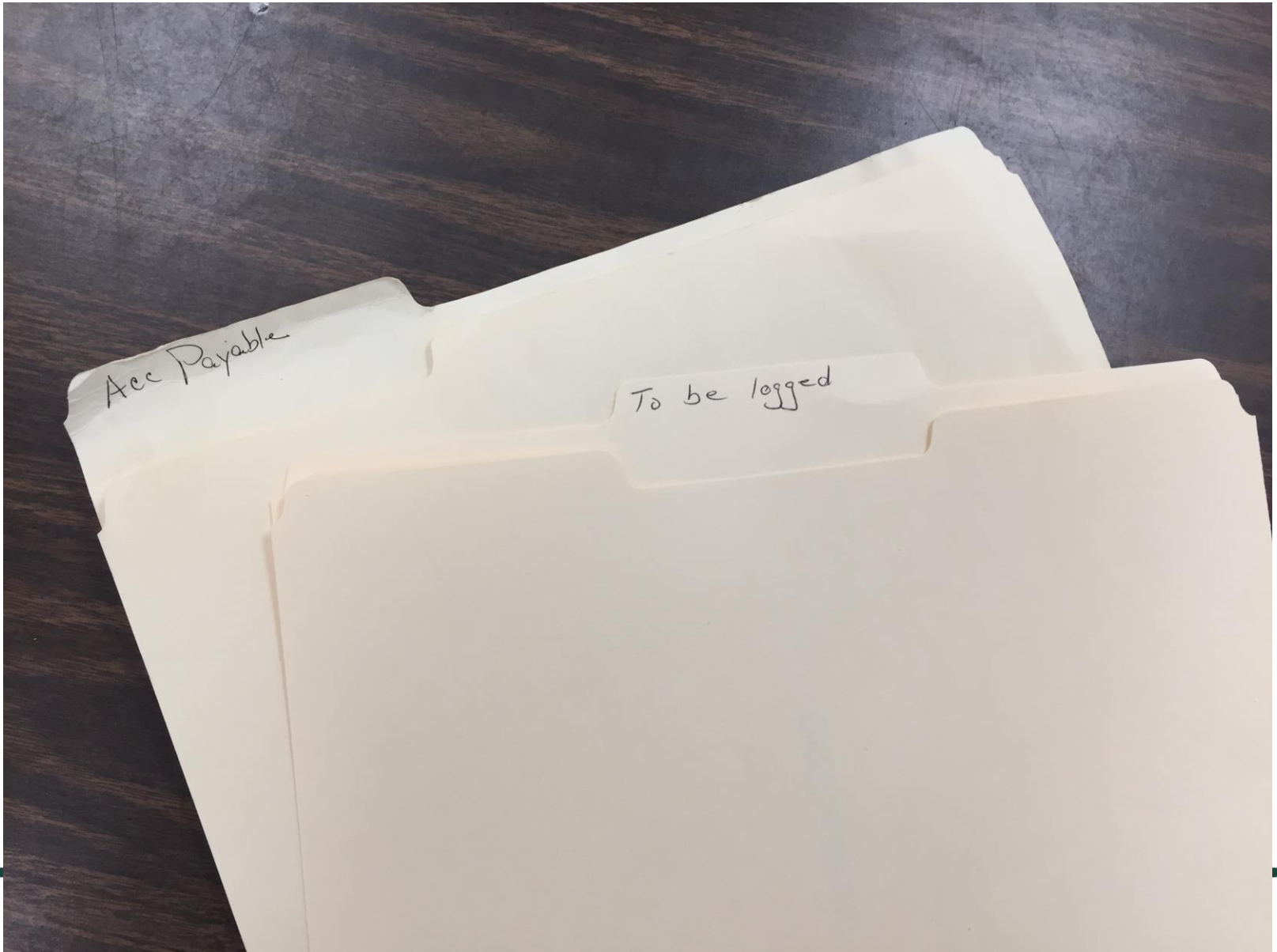
3301 REA 12/10 54.67  
utilities

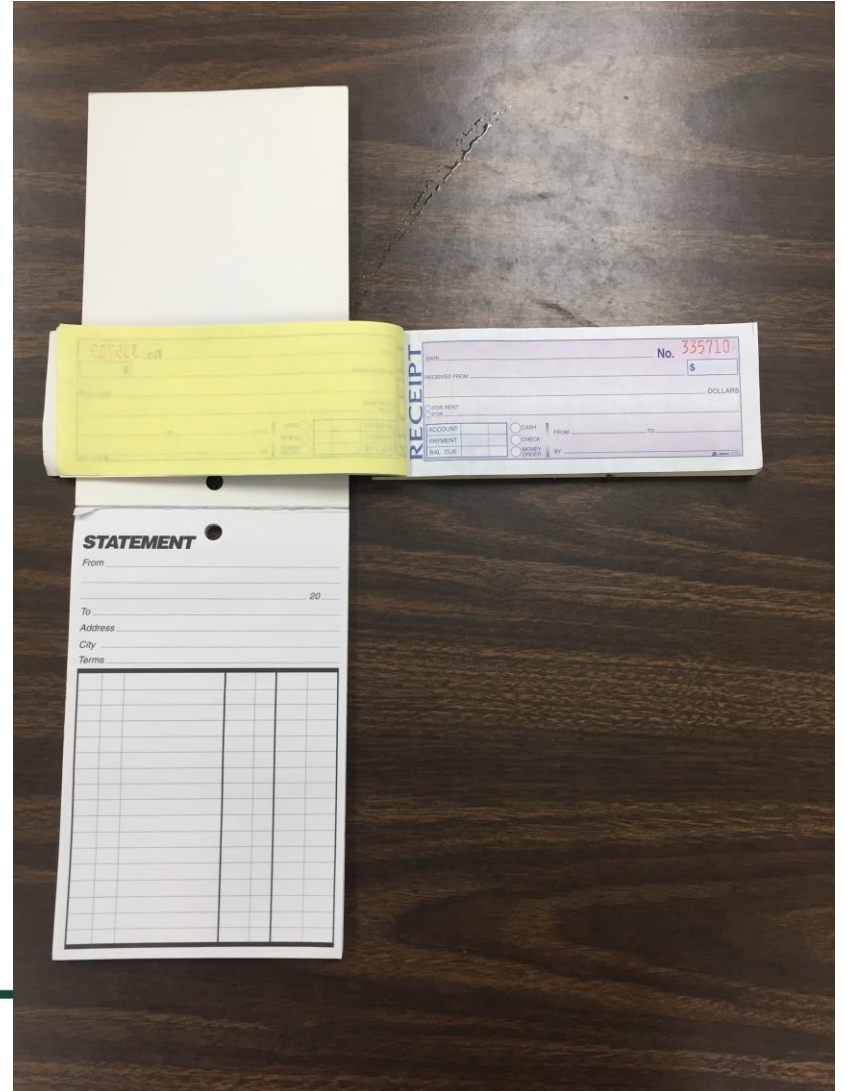
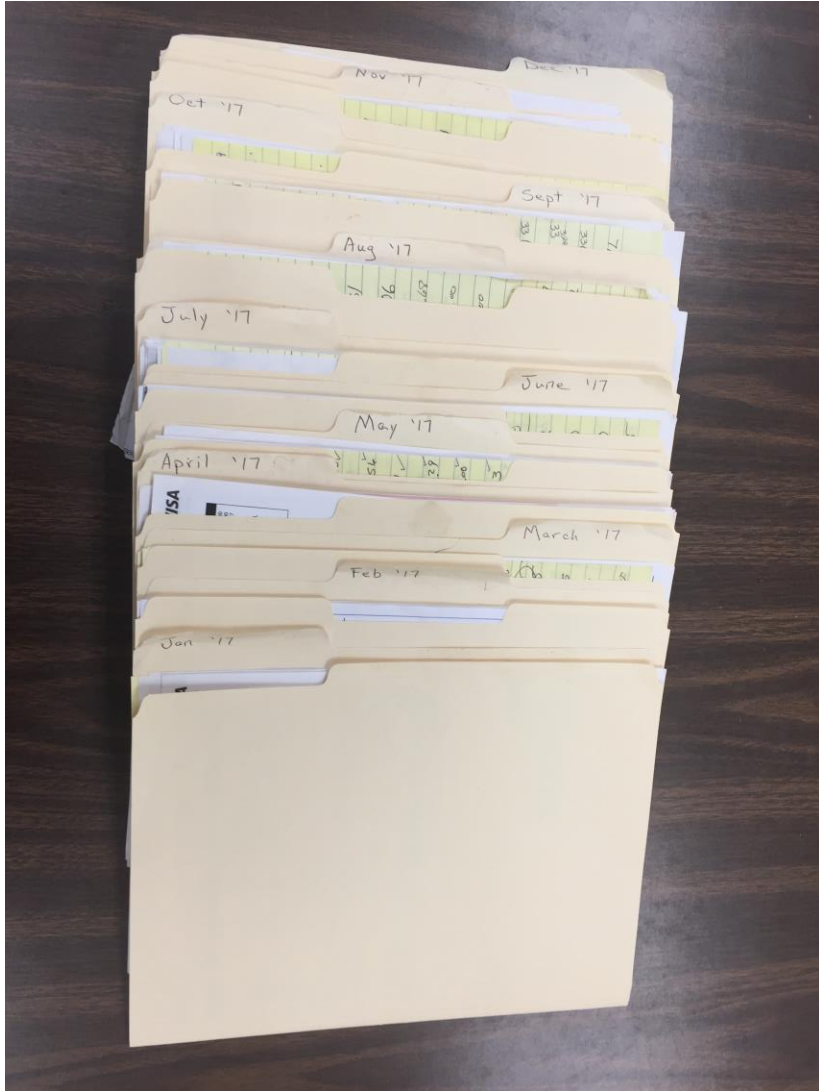
Depo Equity Livestock 12/11 1158.00  
cull cow

Depo John Doe 12/11 2250.00  
Freezer Beef







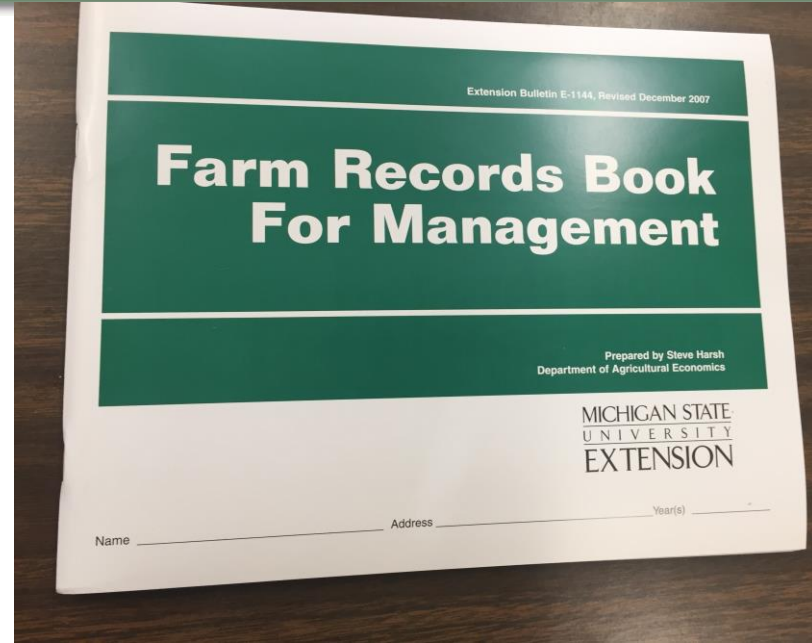


# Accounting Systems

collected  
Know your  
expenses  
Farm form,  
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24

II. A. 2. CASH FARM EXPENSES for Year _____													
L. I. N. #	DATE	PAID TO (VENDOR)	CHECK NO.	TOTAL AMOUNT	NO. OR HEAD	QUANTITY MEASURE (in a unit)	SCHEDULE F PART B ITEMS						
							FEEDER LIVESTOCK BOUGHT (in #) Line 7	CAR, TRUCK Line 12	CHEMICALS Line 13	CONSERVATION Line 14	CUSTOM HIRE Line 15	EMPLOYEE BENEFITS Line 17	FREED PURCHASED Line 18
1				\$									
2													
3													
4													
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24													
25													
26													
27													
TOTALS				\$			\$	\$	\$	\$	\$	\$	\$



# Accounting Systems

- Manual/Handwritten
  - Farm Record Book
  - General ledger and accounting record books
- Computer Systems
  - General – quickbooks, quicken, peachtree
  - Farm Specific – PC Mars, AgManager
- Shoe Box



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# Farm Records Book For Management

Prepared by Steve Harsh  
Department of Agricultural Economics

MICHIGAN STATE  
UNIVERSITY  
EXTENSION

Name \_\_\_\_\_ Address \_\_\_\_\_ Year(s) \_\_\_\_\_



II. A. 2. CASH FARM EXPENSES for Year _____								SCHEDULE F PART II ITEMS							
L I N E	DATE	PAID TO (VENDOR)	CHECK NO.	TOTAL AMOUNT	NO. OR HEAD	QUANTITY MEASURE (e.g. cwt)	FEEDER LIVESTOCK BOUGHT See Part 1 Line 2	CAR, TRUCK	CHEMICALS	CONSERVATION	CUSTOM HIRE	EMPLOYEE BENEFITS	FEED PURCHASED	FERTILIZER AND LIME	FREIGHT, TRUCKING
								Line 12	Line 13	Line 14	Line 15	Line 17	Line 18	Line 19	Line 20
				1	2	3	4	5	6	7	8	9	10	11	12
1				\$			\$	\$	\$	\$	\$	\$	\$	\$	\$
2															
3															
4															
5															
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25															
26															
27															
TOTALS				\$			\$	\$	\$	\$	\$	\$	\$	\$	\$

II. A. 2.				
L I N E	GAS, OIL, FUEL	INSURANCE (Other Than Health)	INTEREST	MA LI
	Line 21	Line 22	Line 23	Line 24
	13	14	15	
1	\$	\$	\$	\$
2				
3				
4				
5				
6				
7				
8				
9				
10				
11				
12				
13				
14				
15				
16				
17				
18				
19				
20				
21				
22				
23				
24				
25				
26				
27				
Σ	\$	\$	\$	\$



II. A. 3. ANNUAL SUMMARY OF FARM EXPENSES for Year \_\_\_\_\_

SCHEDULE F PART II ITEMS

LINE	MONTH	TOTAL AMOUNT	NO. OR HEAD	QUANTITY MEASURE	FEEDER LIVESTOCK BOUGHT Sch F Part 1 Line 2	CAR TRUCK Line 12	CHEMICALS Line 13	CONSERVATION Line 14	CUSTOM HIRE Line 15	EMPLOYEE BENEFITS Line 17	FEED PURCHASED Line 18	FERTILIZER AND LIME Line 19	FREIGHT, TRUCKING Line 20
1	JANUARY	\$			\$	\$	\$	\$	\$	\$	\$	\$	\$
2	FEBRUARY												
3	MARCH												
4	APRIL												
5	MAY												
6	JUNE												
7	JULY												
8	AUGUST												
9	SEPTEMBER												
10	OCTOBER												
11	NOVEMBER												
12	11 MONTHS' TOTALS for Income Tax Management												
13	DECEMBER	\$			\$	\$	\$	\$	\$	\$	\$	\$	\$
14	TOTAL FOR YEAR	\$			\$	\$	\$	\$	\$	\$	\$	\$	\$



II. C. 1.

**PURCHASES OF BUSINESS PROPERTY  
(BREEDING LIVESTOCK, MACHINERY AND EQUIPMENT, BUILDINGS AND IMPROVEMENTS)  
Non-Operating Expenditures**

LINE	DATE PURCHASED 1	DESCRIPTION 2	CASH PAID = ORIGINAL COST BASIS 3 Cash Paid Only	SEC. 179 DEDUCTION 4	COST BASIS FOR DEPRECIATION 5 = 3 - 4	DEPRECIATION METHOD (Check one column)	
						MACRS 150% D.B. 6	ST. LINE 7
1	3-1-2007	Plants	\$ 43,500	\$ 7,000	\$ 36,500	✓	
2	4-15-2007	8 Bred Heifers	15,200	—	15,200	✓	

II. C.1.

**DEPRECIATION (COST RECOVERY)**

LINE	CONVENTION (Check one column)		RECOVERY % 10	DEPRECIATION IN FIRST YEAR 11	REMAINING COST BASIS END OF YEAR 12 = 5 - 11	DEPRECIATION IN SECOND YEAR 13	REMAINING COST BASIS END OF YEAR 14
	HALF-YEAR 8	MID-QUARTER 9					
1	✓		10.71	\$ 3,909	\$ 32,591	\$	\$
2	✓		15.00	2,280	12,920		

**INSTRUCTIONS:**

**Recording Purchases of Business Property (Non-Operating Expenditures)**

**Livestock:** Record purchases of dairy, breeding, and working livestock which are held and used in the farm business for production of income.

**Machinery and Equipment:** Record the purchase of any new or used machinery or equipment that is ready and available for use on the farm.

**Buildings and Improvements:** Record the cost of buildings and permanent improvements that were purchased and used in the farm business for production of income. Drainage tile, fences, and improvements that have a determinable useful life longer than one year should be included here, not as a cash farm expense.

**Original Cost Basis (column 3)** is defined as the cash paid, including any fees and charges associated with the purchase. For depreciable property purchased on or after January 3, 2000, the IRS has ruled that cost basis will be based on cash paid only. The depreciation schedule will continue for machinery item traded in.

**Section 179 Deduction (column 4)** is an elective decision to expense out or deduct in the year of purchase all or part of the cost of qualifying property. The dollar amount of the Sec. 179 reduces the remaining cost basis of the property for depreciation cost recovery purposes.

**Depreciation (Cost Recovery)** provisions allow for an annual expense for purchased property that has a useful life of more than one year. The annual depreciation expense is determined by the cost basis for depreciation (column 5), the cost recovery method chosen (column 6 or 7) and the recovery period in years (see Table I-1). The most common cost recovery alternatives are the Modified Accelerated Cost Recovery System (MACRS) 150% declining balance (see Table I-2) and the straight-line. The convention chosen (column 8 or 9) affects the cost recovery amount that can be deducted in year 1. Consult the current year's Farmers' Tax Guide, Publication 225, for an update and additional details on cost recovery provisions.

**Columns 13 and 14** can be used to record depreciation and remaining cost basis for second year of ownership.





II. D. 1.

LOAN TRANSACTIONS

DATE	CREDITOR	BEGINNING PRINCIPAL OWED 1	ADDITIONAL BORROWING 2	PAYMENTS			ENDING PRINCIPAL OWED 6 = 1 + 2 - 4
				TOTAL PAYMENT 3 = 4 + 5	PRINCIPAL PAYMENT 4	INTEREST PAYMENT 5	
6-15	Farm Bank	\$ 100,000.00	\$ —	\$ 5,827.80	\$ 827.80	\$ 5,000.00	\$ 99,172.20
12-15	Farm Bank	99,172.20	10,000.00	6,362.00	1,403.39	4,958.61	107,768.81
7-1	Shot Line Mash	22,200.00	—	1,492.00	826.00	666.00	21,374.00
10-1	Shot Line Mash	21,374.00	—	1,492.00	850.78	641.22	20,523.22

LOAN TRANSACTIONS

INSTRUCTIONS:

Making payments on farm debt obligations is a cash expenditure. A debt service payment most often consists of both a debt reduction (the principal payment) and an interest expense. The principal portion of the debt service payment is an expenditure of funds but is not a tax-deductible expense. The interest portion of the debt service payment is a tax-deductible expense. For these important distinctions, it is necessary that farm records provide an accurate accounting of these expenditures.

This loan transaction form provides space to keep track of debt service payment to each creditor. After specifying the creditor and date of transaction:

**Column 1** is used to record the beginning principal owed.

**Column 2** can be used to recognize an additional borrowing from this credit source.

**Column 3** is used to record the total debt service payment.

**Column 4** represents the principal portion of the debt service payment.

**Column 5** is the interest portion of the debt service payment. Interest totals from this section can be carried to the "Annual Summary of Farm Expenses," **Column 15** and/or entered on Schedule F, line 23a for mortgage interest and line 23b for other interest on farm business debt.

**Column 6** provides the opportunity to determine the ending principal balance owed. This amount will eventually need to be reconciled with the statement provided by your creditor.



III. A. 1. CASH FARM RECEIPTS for Year <u>2007</u>							SCHEDULE F PART I (Write in column headings for your business)					
LINE	DATE	ITEM DESCRIPTION	BUYER	TOTAL AMOUNT	NO. OR HEAD	QUANTITY (e.g., CWT, BU)	RAISED LIVESTOCK SOLD (not breeding stock)	PURCHASED FEEDER LIVESTOCK SOLD	MILK	SOYS	WHEAT	
							4	5	6	7	8	9
1	1-16	Milk	Co-op	\$32,927.50	193,500	lbs.	\$	\$	\$32,927.50			
2	1-20	Calves	Vealco	357.00	3	head	357.00					
3	1-25	soybeans	Asnow Inc.	4,335.00	500	bushel				4,335.00		
4	2-1	Cons. Pymt	USDA	2,520.00	40	acres						
5	2-3	Meeting	Brady	40.00								
6												
7												
8												
9												
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12												
13												
14												
15												

III. A. 1.			
LINE	10	11	12
1	\$	\$	\$
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14			
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18			

RECORDING FARM INCOME

INSTRUCTIONS:

Farm income can be placed into two categories--ordinary income and capital gains. Ordinary income originates from sales of products produced and services rendered. Examples of ordinary income are grain sales, livestock products such as milk, and feeder or market livestock sold. Capital gains income is generated from the sale of capital assets; e.g., breeding livestock, machinery, and real estate. This income, commonly referred to as Form 4797 items, does not affect Social Security qualification and must be kept separate from ordinary income items.

Ordinary income items are reported for income tax purposes on Schedule F and will be discussed first in this farm income section.

Columns 1, 2, and 3 are to be used for recording quantities and dollar amounts in journal fashion. The quantities are necessary for business analysis and planning. The total of column 1 can be used as a cross-check of the totals of all other columns to guard against posting errors. Also, it can be used for initial recording during rush periods and the figures posted to the proper itemized column when more time is available. Space is provided on pages 100-105 to record monthly totals of quantities and dollars for each kind of income.

Many items of income are erroneously reported on Schedule F which should be reported on a Schedule B, C, or D and totaled on the individual's Form 1040.

For a more complete discussion, get a copy of the "Farmers' Tax Guide" from your county agricultural agent or the Internal Revenue Service.

OPERATING INCOME

1. SCHEDULE F PART I

Column 4 is for the income from raised market livestock which do not qualify for capital gain treatment. Included are raised slaughter livestock (cattle, hogs, and lambs).

Column 5 is for the sale of feeder livestock that was purchased to be fed out and resold.

Columns 6 - 12 are for income from the sale of crops and livestock products. Be sure to place headings in the same order on each page to avoid confusion.

Column 13 is for Commodity Credit Corporation loans that are claimed as income when received.

Column 14 is for crop insurance indemnity payments received. If on cash method of accounting, you report crop insurance payments in the year indemnity payment if the damaged crops were converted to income in that year.

Column 15 is for patronage dividends and results from the operation of the business.

III. A. 3.

ANNUAL SUMMARY OF FARM INCOME for Year \_\_\_\_\_

SCHEDULE F PART I

L I N E	MONTH	TOTAL	RAISED	PURCHASED				
		AMOUNT	LIVESTOCK	FEEDER				
		1	(not breeding stock)	LIVESTOCK	6	7	8	9
			SOLD	SOLD				
			4	5				
1	JANUARY	\$	\$	\$	\$	\$	\$	\$
2	FEBRUARY							
3	MARCH							
4	APRIL							
5	MAY							
6	JUNE							
7	JULY							
8	AUGUST							
9	SEPTEMBER							
10	OCTOBER							
11	NOVEMBER							
12	11 MONTHS' TOTALS for income tax management							
13	DECEMBER							
14	TOTAL FOR YEAR							



III. B. 1.

SALES OF BUSINESS PROPERTY  
(BREEDING LIVESTOCK, MACHINERY & EQUIPMENT, BUILDINGS & IMPROVEMENTS)

L I N E	DATE SOLD 1	DESCRIPTION 2	DATE ACQUIRED 3	SALES PRICE 4	ORIGINAL COST BASIS <sup>1</sup> 5	COST RECOVERY FROM DEPRECIATION & SEC. 179 6	TOTAL GAIN 7=(4 - 5 + 6)
1	3-15-07	Drill	4-1-1997	\$ 4,500.00	\$ 23,500.00	\$ 23,500.00	\$ 4,500.00
2	4-15-07	5 Sows	3-20-2006	710.00	1,800.00	450.00	-640.00
3	4-1-07	2 Cows raised	2003-birth yr	1,482.00	—	—	1,482.00
4							
5							
6							
7							
8							
9							
10							
11							

INSTRUCTIONS:

Reporting Sales of Business Property

Income generated from the sale of capital assets such as breeding livestock, machinery, and real estate is treated differently from ordinary income. Because capital gains income is reported for income tax purposes on IRS Form 4797 and is not earned income for self-employment Social Security purposes, it is wise to record separately this income in your farm account book.

Columns 1, 2 and 3 are used to identify the capital asset sold and the relevant dates of purchase and sale.

Column 4 is used to record the sales price.

Column 5 is for the original cost basis of the capital asset sold. This amount will be subtracted from the sales price in determining capital gains.

Column 6 is used to recognize the depreciation cost recovery claimed on the capital asset during the time of ownership and use by the farm business. This amount must be added back in when determining total capital gains (Column 7). For income tax purposes, capital gains up to the amount of depreciation cost recovery (Column 6) are categorized as an ordinary gain and are fully taxable. Remaining capital gains over the ordinary gain may be taxed at a lower rate than the ordinary gains.



# Transaction types

- Expense
  - Cash farm expense – feed, fertilizer, supplies, repairs, Schedule F
  - Capital Purchases – machinery, breeding stock, buildings, Depreciable assets – sch. 179
- Income
  - Cash farm receipts – crop, livestock, milk, gov payment
  - Sales of business property – machinery, breeding stock



## New Year's Resolution

- Separate business and personal finances – checking account and credit card
- Record every transaction – ledger and accounting system – stay current
- Find expert help to with questions and details



# How do you conduct accounting

- Yourself?
- Family member?
- Accountant?
  
- How do you track cash flow?
- Do you ever sell grain to meet expenditures?
  
- Do you meet cash flow with cash on hand or operating loans?

