UW Growing Beginning Farmers & Ranchers

Starting out in agriculture: The importance of good recordkeeping

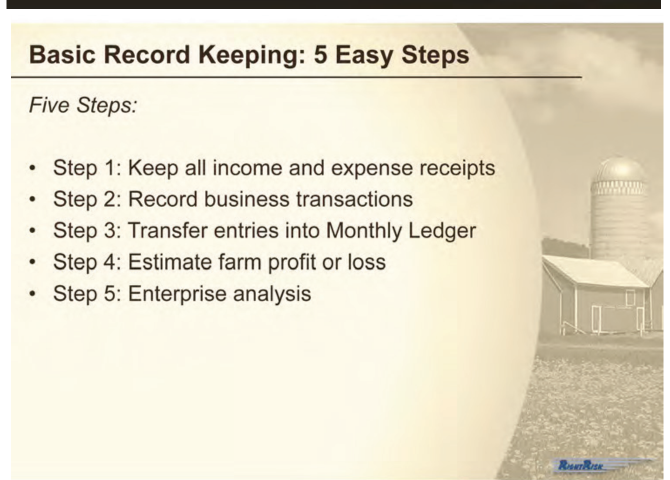
There are several universal steps managers can take to profitability and business success, regardless of how new to agriculture.

Learning to keep good records is one of the crucial first steps as a new or beginning producer. Keeping good records is key to understanding a business' financial performance and offers the foundation for vital financial functions such as applying for credit, management planning, tax preparation, and being prepared when opportunities arise.

Keeping adequate records can be a daunting task, especially for newer operators. Resources offer training on recordkeeping and instruction on fitting it into the daily management of an agricultural enterprise.

GETTING ON TRACK COURSES

The Getting on Track series was developed with new, beginning, and small scale producers in mind. The series highlights the importance of keeping basic records, compiling financial statements, and learning to properly evaluate these records and statements once completed. The three-part course is self-paced and includes numerous resources and examples in a family-business setting.



Getting on Track: Better Management Through Ag Records is the first course in the series and was designed as a resource for producers to improve recordkeeping skills. The course includes several profiles of producers just starting out at ground level with recordkeeping.

WHY KEEP RECORDS?

The simple answer is recordkeeping is necessary to know where a business stands. It is all but impossible to gauge business performance without basic records of the expenses and revenues generated by a business. The course highlights examples of agribusiness failure, due mainly to a lack of understanding of financial performance and the needed records. The benefits outweigh the often-offered reasons for not keeping records. The course outlines how keeping sound records can provide sound financial footing for a business to grow and succeed.

One of the highlighted examples in the course involves a young producer, Juan Pablo, whose farm business begins as a hog 4-H project and grows into a much bigger enterprise. Juan's initial success growing a few pigs for 4-H shows convinced him to increase his hog numbers and expand facilities on his family's small farm, where his parents worked off the farm.

After two years of expansion, Juan's family began to see how much more complicated a business was going to be than raising a few show pigs. The information the family needed to make production decisions wasn't available, even though Juan could easily recite hog numbers and equipment he had on hand; decisions like feed needs, which sows raised the top pigs, which were producing better than others, and how many were actually needed.

More detailed financial planning was going to be necessary, given the relatively quick expansion, requiring records to be compiled from past years to better understand future needs.

BASIC RECORDKEEPING: STEPS TO ACHIEVE IT

The next two sections of the recordkeeping course demonstrate how to begin the process. First, it is important to save all income and expense receipts, including, but not limited to, sales tickets, paid invoices, checking records, and credit statements. These records should be sorted by enterprise or type, depending on the business involved. Juan learned he needed to keep track of all feed and other inputs that went into his hog business, a running record of each expense category.

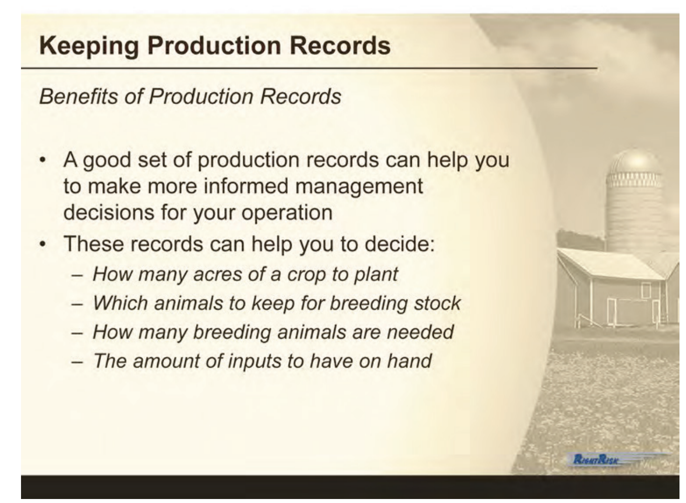
KEEPING PRODUCTION RECORDS

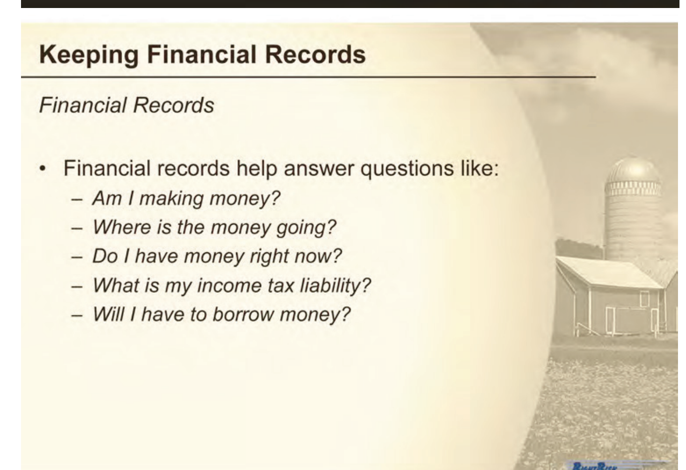
Juan's discovery leads to the next step in the records course: keeping a journal of all income and expenses. Being able to track details of day-to-day production involves more than just keeping track of receipts and expenses. The course outlines the correct accounting methods to follow when keeping a journal and a subsequent monthly ledger.

Juan learned he also needed to keep much more detailed production records, including inventory lists, hog purchases, head counts, farrowing records, and feeding records. He could begin to budget for future needs much more accurately once he was able to compile his production records and understand what his costs were.

BUILDING FINANCIAL RECORDS AND A SCHEDULE F

Formulating financial records is the next step once production records have been compiled. Financial records provide the information that helps to make the management decisions that can often mean the difference between success and failure. Juan knew how many pigs he was raising; he just didn't know if he was making any money on them after expenses. Consequently, Juan didn't know if he could generate enough cash to meet his business needs or if he needed to borrow money to finance his expanding enterprise.





This section of the course covers how to build and interpret an income and expense statement, a monthly financial record or cash flow statement, and an annual financial summary. These forms have a progressive relationship: they start as a detailed list of transactions and move to a summary form of those transactions.

Monthly production records should be transferred to an income and expense form: including dates, categories, and account balances. Once these monthly records are completed, they can be converted to an annual summary. The annual summary allows decision makers to identify trends and often upcoming cash flow needs. Juan was much better prepared to apply for a Farm Service Agency beginning farmer loan with more complete records in hand. The loan offered much-needed assistance to grow his hog business that in turn requires more extensive recordkeeping.

Sound production and financial records also provide the basis for completing an IRS Form 1040 and associated Schedule F for agricultural activities for tax purposes. These forms can also provide other benefits such as determining business eligibility for government programs, cost shares, and other assistance.

Visit RightRisk.org to access any of the three Getting on Track courses. Simply select the Courses tab to view a listing. RightRisk.org is a premier risk management education site with in-depth resources to assist producers with everything from budgeting and crop insurance decisions to estate planning and many other topics.

Risk management resources for new and beginning producers:

- The beginning farmer and rancher library: farmanswers.org/library
- The beginning farmer and rancher toolbox: farmanswers.org/toolbox
- The national ag risk and farm management library: agrisk.umn.edu

James Sedman is a consultant to the Department of Agricultural and Applied Economics in the University of Wyoming College of Agriculture and Natural Resources, and **John Hewlett** is a farm and ranch management specialist in the department. Hewlett may be reached at (307) 766-2166 or hewlett@uwyo.edu.

University of Wyoming Extension

USDA