



# First Steps to Creating Financial Records

*In this module we present resources to learn about farm recordkeeping. We define some accounting concepts and ways to use them to set up a recordkeeping process that works for you. A working recordkeeping system is one where you can easily find the information you need to make decisions when you need to.*

## **TEACHING OBJECTIVES: WHY DO THIS?**

- Small businesses play an important role in the economy of a community.
- Collectively, small businesses are more impactful to the economy than big ones.
- To be sustainable, small businesses need to understand business management.
- A business with poor financial record keeping is less likely to be able to access funding such as loans and grants and succeed in the long term.

## **BEST LOCATION**

Clean, quiet space, with paper, pen, a calculator and a computer.

## **BEST TIME OF YEAR**

Off- production season and if working with full past-year records, after Dec. 31

## **LEARNING OBJECTIVES: WHAT CAN PARTICIPANTS LEARN?**

- How records guide you to make smart decisions.
- The value and use of records.
- The different levels of record keeping.
- Basic accounting definitions to help you complete forms such as taxes and income sheets.
- Key aspects of accounting systems.
- The differences between a few recordkeeping systems, both free and paid, including paper journals, spreadsheets, and online systems such as PC Mars (very good and inexpensive!) and Quickbooks.
- How to complete the information in a recordkeeping program, such as entering a transaction, and how to export a report.
- An understanding of depreciation.
- Accounting reports (balance sheet, income statement, cash flow) and how to use them.
- Farm tax filing basics.



## FARM FINANCES

# CREATING FINANCIAL RECORDS

### IMPORTANCE FOR BEGINNING FARMERS

Getting set up with a good record keeping system is very important for a new farm business. Records will help you calculate your costs to produce different crops and identify how much money is needed per pound (or other unit) to cover costs. Records help communicate with lenders, grant funders, and accountants.

Paper records and spreadsheets are a good way to get started in early years. However, there are budget and beginner-friendly software programs that may be a better option for ease to maintain from year to year.

### UNIQUE ASPECTS OF THE CURRICULUM

The focus of this curriculum is on considering the costs and expenses of all the activities of farming, from growing to markets. Its purpose is to help beginning farmers understand, track and manage finances toward a successful business. This curriculum is designed to be both approachable by beginning recordkeepers and useful for farmers with some recordkeeping experience.

## Facilitator Planning & Preparation

| Activity  | Est. Instructional Time |
|---|-------------------------|
| Setting up an example farm's recordkeeping system                     | 3 Hrs                   |
| Entering a series of example transactions into a recordkeeping system | 3 Hrs                   |
| Summarizing cash records for taxes and analysis                       | 3 Hrs                   |



## Technical Content

### KEY WORDS:

#### Levels of recordkeeping

The activities of recordkeeping can be performed at different levels with different goals in mind. These levels or goals can be (1) filing taxes, (2) financing or understanding net worth, (3) decision-making at the whole-farm level, and (4) decision-making at the enterprise level.

#### Activities of recordkeeping

Steps of the recordkeeping process. They include classifying transactions (1), storing evidence of those transactions (2), balancing and reconciling (3), generating reports (4), and analyzing those reports to make management decisions (5).

#### Statement of cash flows

Report that summarizes all sources and uses of cash during a given accounting period.

#### Chart of accounts

A list of expense and revenue categories that are accounted for. For example: Fuel, seed, fertilizer, crop X sales, crop Y sales

#### Cash flow budget

A forward-looking projection of cash flows in your next accounting period

#### Depreciation schedule

Report that helps determine how much deduction can be taken for each major asset each year when filing taxes, usually prepared by the tax preparer with info you provide.

### FACILITATOR BACKGROUND INFORMATION:

This module will focus on the first three activities of recordkeeping (left). If the facilitator is not familiar with farm recordkeeping and the basic ways records are used for the farm, it may be beneficial to seek an experienced farmer or small business owner to assist in teaching this module. **Search engines are your friend, for learning basics about the different topics and terms of art.**

It is helpful if the facilitator has:

- Prepared income tax returns for a farm business, or has worked with a tax preparer to do so.
- Worked with a lender to apply for a loan or line of credit.

Additionally, the following experience would be good for helping learners to apply the concepts:

- Have developed a business plan for an agriculture business.
- Gone through the process of calculating production costs for one or more crops or products.
- Kept track of inventories: inputs, tools, harvested crops.



## KWL Process

*Know, Want to Know, Learn*

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### **Suggested prompting questions for farmers to share from their experience:**

- Do you currently sell products?
- If so, to which markets (farmer's market, CSA, to retailers, wholesalers)?
- How do you keep records (shoe box, paper records, spreadsheet, software)?
- Have you worked with a lender or grant funder before?
- If yes, how did you prepare for the meeting?
- What was your experience?



### **Suggested prompting questions to find out what participants want to learn:**

- What do you hope to learn today?  
Suggested ideas:
  - How to keep basic records?
  - Using software or spreadsheets?
  - Figuring out what crops are most profitable for you?
- Do you have any other goals for recordkeeping?
  - Get a loan?
  - Get a grant?
  - Financial analysis/ business planning?
  - Deciding when an enterprise is to big or too small?



## Primary Activities

*Overview of the main activities in this module*

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### Activity 1

#### **Setting up an example farm's recordkeeping system**

The goal of this activity is to illustrate how to set up a farm's recordkeeping system, or reexamine and improve an existing one.

### Activity 2

#### **Entering a series of example transactions into a recordkeeping system**

The goal of this activity is for students to learn how to use a recordkeeping system. You can demonstrate this by entering common farm transactions into a real recordkeeping system.

### Activity 3

#### **Summarizing cash records for taxes and analysis**

The goal of this activity is for students to learn to record transactions in a way that is useful for filing taxes and for basic analysis of cash income and cash flow (expenses and income). We do this by creating reports, and by learning about the farm tax-filing process.



# 1. Setting up an example farm's recordkeeping system

## OVERVIEW

The goal of this activity is to provide students with tools to set up their own recordkeeping system or reexamine and improve it if they already have one. We do this by working through an example farm's recordkeeping system setup process.

## MATERIALS NEEDED

- Paper and pens
- Computer
- Projector or second computer screen if possible

## FACILITATOR BACKGROUND INFORMATION

The main activities of recordkeeping are:

- **Classifying transactions (categories)**
- **Storing evidence of those transactions (receipts)**
- **Balancing and reconciling the accounts (Bank statements)**
- **Generating reports for various uses (Showing costs and profits)**
- **Analyzing those reports to make management decisions. (deciding if that market is right for your farm business)**

This activity will go over concepts and encourage students to create a recordkeeping system for a hypothetical farm (or their farm if they are at that level). The goal is to enable them to eventually set up a recordkeeping system of their own. To facilitate this activity, you should familiarize yourself with the information on levels of recordkeeping, the why's and how's to classify transactions, the chart of accounts, and the basics of accounting. **Search engines are your friend!**



# 1. Setting up an example farm's recordkeeping system (cont.)

## PROCEDURE

After assessing participants' prior knowledge/experience and interests through a guided discussion, walk students through the content, either as outlined here or by using any form or parts of this module that you consider relevant.

As you review the PowerPoint slides, stop, ask questions, and prompt students to co-create a sample farm's record keeping system. They can work in pairs or groups, to help and learn from each other. We provide a suggested farm example in the Handout #1. Alternatively, they can design a sample hypothetical farm that is similar to the farms of the students in the room. For one group, this might be a market garden farm, for another group a community supported ag market farm (CSA) might be on point... and so on. **A similar alternative would be to have somebody in the group tell their story about their farm, and have the group discuss what would a good record keeping system be for that specific situation. The facilitator may volunteer to share their story and record keeping journey with the learners. Creating a panel of farmers with experiences that relate to accounting and record keeping may be a preferable approach.**

The goal of the sample farm exercise is to prompt reflection about attendees' current or future record keeping system. They should leave with ideas of how to set up a record keeping system (for first timers), or reexamine their existing one. The tools we have provided can help them identify parts and changes needed.

It is very important that the whole curriculum is not delivered simply using PowerPoint slides. We suggest to weave discussions, demonstrations and activities throughout the content, or should we say, weave the content within the discussion. Allow learners to demonstrate to each other their experiences and knowledge as the conversation goes. PowerPoints and videos can be reviewed by learners at a later time/on their time if needed. However, the group discussion is impossible to replicate! We therefore recommend making this a co-learning / participatory learning event.



# 1. Setting up an example farm's recordkeeping system (cont.)

## PROCEDURE

### Part 1: Setting the farm's goals

In this section we will review the different uses and goals for keeping farm financial records. Then, we will determine what are the sample farmer's goals. Understanding their goals will guide us to make decisions on their recordkeeping system setup.

#### **Review:**

- **Intro and activities of accounting** -- See PowerPoint **Slides 3 to 7**

Describe the various goals of bookkeeping and the basic activities of the farm bookkeeper or bookkeepers.

- **Levels of recordkeeping** -- See PowerPoint **Slides 8 to 10**

Describe the different levels at which bookkeeping can be done. Explain what each level entails in terms of bookkeeping work, and what information it provides.

#### **Suggested discussion questions:**

- Why are farm records important to you?
- What activities do you perform as part of your recordkeeping duties?
- At which level of record keeping is your farm now?
- What are your goals for your farm and future farm plans?
- What changes can you make to your record keeping systems to help meet these goals?
- Out of all the different potential uses of records, pick two that are most important to your farm operation.





# 1. Setting up an example farm's recordkeeping system (cont.)

## PROCEDURE

### Sample farm exercise:

- In small groups, have each person describe their recordkeeping system now.
- Why do they keep the records?
- What do they currently use their records for?
- Where would they like to be in 5 years in terms of management of their financial information?

## Part 2: Flushing out the basics

In this section we will learn the basic decisions that need to be made to set up a recordkeeping system. Then, we will start making some choices for the sample farm.

### Review:

- **Personal transactions** -- see PowerPoint **Slides 11 to 15**

Talk about why it's important to keep personal and business records separate, and how you can go about doing that.

- **The chart of accounts** -- see PowerPoint **Slides 16 to 21 and Handout #1**

Discuss the chart of account categories needed for the example farm in Handout #1 below.

Overview questions for discussion:

- Discuss the information that needs to be recorded for each transaction (date, amount, vendor/payer, check/deposit/transaction number, description and account).
- Do you keep personal and business records separate?
- Who in your farm business will be doing the record keeping regularly?



## Example: J&J Hillside Farm

José and Jane farm 3 acres of vegetables in Southwest Michigan, under the name J&J Hillside Farm. It is their 5th season growing both, their production and marketing. They've been selling at farmers markets, at their farm stand and online through their social media accounts, with on-farm pickup.

They would like to have a good system to keep track of their expenses and sales revenues. They would also like to keep track of some of their major crops and products. They grow:

- A variety of herbs, but small amounts of each
- Garlic
- Storage onions
- Potatoes
- Green beans
- Cabbage
- A variety of leafy greens, mainly kale, spinach, and a variety of baby greens
- Flowers for bouquets

They also raise:

- 20 layers (chickens) for egg sales
- 4 hives of honeybees

In August, they hire one part time worker to help with harvest and stocking the farm stand.

They utilize both of their pickup trucks to carry good to sell at farmer's markets. They each keep track of their miles used for business purposes, so that they can take the standard IRS mileage rate as a deduction from their taxes. Their car insurance is covered by each of them individually.

However, they do purchase liability insurance for the farm. They have a slip-and-fall policy that also covers liability in case someone gets ill from their products, in total costing them about \$100 a month.



# 1. Setting up an example farm's recordkeeping system (cont.)

## PROCEDURE

### Sample farm exercise for Part 2:

As a class, look at the description of our example farm, J&J Hillside Farm, in Handout #1 on the previous page. Use these questions to guide the conversation:

- What account categories are needed to keep track of **expenses**?
- What account categories are needed to keep track of **sales**?
- How will this farm keep personal and records separate?

### Part 3: Working out some details

In this section we will learn a few concepts that will help you be better prepared to take your records to the next step.

#### Review:

- **Special types of accounts** -- See PowerPoint **Slides 22 to 24**

Discuss depreciation. What is it?

- **Methods of recordkeeping** -- See PowerPoint **Slides 25 to 28**

Describe different methods of keeping receipts and other records.

#### Suggested discussion questions:

Do you have any employees? How do you keep track of their wages, hours, time off?

Do you have any loans and if so how do you keep track of them?

Do you take inventory of farm assets at any time?



## Setting up an example farm's recordkeeping system (cont.)

### PROCEDURE

#### Part 4: Picking your recordkeeping tools

In this section we will learn about recordkeeping tools. From receipt storage to spreadsheets to software programs, this section will help you decide what tools best fit your example farm's needs.

##### Review:

- **Tools for recording journal entries** -- See PowerPoint **Slides 29 to 32**

In order to help the example farmers decide which tools may be a best fit for them, begin by holding a general discussion of record keeping tools available: paper journals ([shop.msu.edu](http://shop.msu.edu)), apps (for example, Toshl), websites (QuickBooks Online, Wave), spreadsheets ([bit.ly/farmrecordsbook](http://bit.ly/farmrecordsbook), [bit.ly/farmcashtrack](http://bit.ly/farmcashtrack)) and software programs like PC Mars and Quickbooks Desktop.

- **Farm Records Book Overview** See PowerPoint **Slide 33**

The MSU Extension Farm Records Book for Management (FRBM) is a recordkeeping worksheet that allows farmers to keep records in alignment with tax filing needs. You can access it online free of charge by following this link: [bit.ly/farmrecordsbook](http://bit.ly/farmrecordsbook), to use on your computer or to print at home if you prefer to fill it out by hand. A booklet can also be purchased at your local extension office or online at the MSU Extension online store ([shop.msu.edu/products/bulletin-e1144](http://shop.msu.edu/products/bulletin-e1144)). Apart from keeping records for tax purposes, the FRBM has other sections: a cash flow summary, a balance sheet, an income statement and financial ratios.

Optional: see the video instructions for the Farm Records Book at [https://youtu.be/NK\\_JgwkJfbg](https://youtu.be/NK_JgwkJfbg)



## Setting up an example farm's recordkeeping system (cont.)

### PROCEDURE

- **Other spreadsheets, forms, and receipt storage systems** See PowerPoint **Slide 34**

The Farm Cash Tracker ([bit.ly/farmcashtrack](https://bit.ly/farmcashtrack)) allows you to use double-entry accounting in a spreadsheet, and it will let you import transactions downloaded from bank's online accounts.

The Record keeping Form ([bit.ly/recordkeepingform](https://bit.ly/recordkeepingform)) is a Google form that allows you to upload a picture of the receipt to your Google Drive into folders by account. You enter all the receipt information on-the-go and a spreadsheet gets formed automatically with all the transactions you entered.

Receipts can be stored physically or digitally. Discuss options. On the physical side: envelopes, binders, notepads, printing online orders. On the digital side: using apps for taking pictures (Google Photos, Google Drive, OneDrive, Office Lens), and using a text program for taking notes.

- **Balancing and reconciling** – See PowerPoint Slides **35 to 36**

Talk about the importance of reconciling records. Discuss the differences and similarities between keeping a **reconciled** and a **balanced system**.

#### **Suggested discussion questions:**

- Do you balance and reconcile your books? How/how often?
- Do you store evidence of all transactions (receipts)? How?
- How do you keep track of transactions? What is your record keeping system like?



## Setting up an example farm's recordkeeping system (cont.)

### PROCEDURE

#### Sample farm exercise:

- When and how often do you think this farm will reconcile (balance the books)?
- What tools might be most useful for this farm for storing receipts and entering transactions? What challenges and benefits will they encounter using them? Do you think these tools are a short- or long-term solution for them?
- Do you think they should consider hiring a bookkeeper? Why/Why not?

#### Optional exercises:

- Watch an overview of PC MARS: the pros, cons, general characteristics. See the video made by Michigan State University: <https://youtu.be/KdKbAL9kzKA>
- Watch an overview of QuickBooks. See the video made by Michigan State University: <https://youtu.be/Gg5vcnFszu0>
- To share a perspective on how online accounting works, you can do an overview of the free online accounting website, Wave ([next.waveapps.com](http://next.waveapps.com)). It shows how to attach receipts to transactions and how to connect with the bank or import transactions from a spreadsheet downloaded from the bank's portal. See video at: <https://www.youtube.com/playlist?list=PLRkEX4P2CrcqWkwHIFXCvFiZXnpV44Yc5>



## Setting up an example farm's recordkeeping system (cont.)

### DIVE DEEPER

This curriculum has been designed to make it possible for the facilitator to deliver it in-person or virtually, to large or small groups alike.

If you are working with a large group, consider breaking students up in smaller groups and sharing out at the end.

Each activity has been designed as a stand-alone co-learning experience, so you may also tailor your event to longer or shorter time frames as desired.

### VARIATIONS

We provide handouts that can also be used in a presentation format, related videos as resources and background information. Feel free to reuse as-is, or use these to develop presentations and handouts specific to your group.

### CONNECTIONS TO OTHER MODULES

See the Markets and Land Ownership Modules for information related to farm financial management. [\(LINK?\)](#)



## 2. Entering a series of example transactions into a recordkeeping system

### OVERVIEW

The goal of this activity is to help students use a recordkeeping system to enter their most common farm transactions. We do this by entering sample transactions into a real recordkeeping system.

### MATERIALS NEEDED

- Paper and pens
- Computer
- Projector or second screen if possible
- At least one recordkeeping tool. See suggested options in Activity 1. Consider using affordable or no-cost tools.

### FACILITATOR BACKGROUND INFORMATION

This activity will go over how to enter actual accounting records.

To facilitate this activity, you should have experience with at least one farm recordkeeping system/tool. You should be able to demonstrate how you record the following transactions, from making the transaction all the way to storing the receipt, recording the transaction and checking that your records stay balanced and reconciled throughout the process.

- 1- Paying a bill from the local co-op store
- 2- Paying for a piece of equipment
- 3- Recording a draw from an operating loan
- 4- Record payment of an electric bill
- 5- Farm purchase with farm credit card
- 6- Farm loan payment
- 7- Recording crop sales

If you do not have this experience consider inviting a farmer who will share their recordkeeping process with the learners.





## 2. Entering a series of example transactions into a recordkeeping system (cont.)

### PROCEDURE

After assessing participants' prior knowledge and interests, collectively enter examples of a series of transactions in one or two different recordkeeping systems. A suggested list of common transactions can be found above and in **Handout #2, below**.

Make sure you go over all the activities of recordkeeping, from the transaction taking place, to recording it, to storing the receipt, and to making sure the books are still balanced and reconciled after recording it.

The goal of this activity is to help students feel confident in actually using the recordkeeping system of their choice. Make sure you address how to find help when they have questions about how to enter a transaction. For example, you can point to the farm tax specialists found at <https://www.canr.msu.edu/taxschool/farm-tax-practitioners>, from the MSU TelFarm Center, to MSU Farm Business Management educators, or to other resources.

#### Review:

- **Entering transactions in QuickBooks** -- See PowerPoint **Slides 37 to 39**

In this section we look into how to enter a series of common farm transactions into QuickBooks desktop.

Watch this video from Michigan State University: <https://youtu.be/xA3cxxRU7UE>

Discuss how to enter in an expense, and how to enter a sale into the program. Use **Handout #2** below for examples.

- **Entering transactions in PC Mars** -- See PowerPoint **Slides 40 to 41**

In this section we look how to enter common farm transactions into PC Mars.

Watch this video from Michigan State University: <https://youtu.be/su8W7BSEvwg>

Discuss how to enter in an expense, and how to enter a sale into the program. Use **Handout #2** below for examples.



## Entering a series of example transactions into a recordkeeping system

***The goal of this activity is to help students use a recordkeeping system to enter their most common farm transactions. We do this by entering sample transactions into a real recordkeeping system.***

*Record the following transactions. Enter the transaction in an accounting system and check that the records stay balanced and reconciled (agree with each another) throughout the process.*

1. Paying a bill from the local co-op store
2. Paying for a piece of equipment
3. Recording a withdraw from an operating loan
4. Record payment of an electric bill
5. Farm purchase with farm credit card
6. Farm loan payment
7. Recording crop sales



## 2. Entering a series of example transactions into a recordkeeping system (cont.)

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### CONNECTIONS TO OTHER MODULES

See the Markets and Land Ownership Modules for information related to farm financial management.



## 3. Summarizing cash records for taxes and analysis

### OVERVIEW

The goal of this activity is that students are able to summarize transactions in a way that is useful for filing taxes and also for basic analysis of cash income and cash flow.

We do this by exporting and creating reports, and by learning about the farm tax-filing process.

### MATERIALS NEEDED

- Paper and pens
- Computer with spreadsheet software (Excel, Google Sheets)
- Projector or second screen if possible
- At least one of the recordkeeping tools used in Activity 2

### FACILITATOR BACKGROUND INFORMATION

This activity will go over how to generate summary reports from the recordkeeping system that will be useful for tax filing purposes.

Then, we will work on looking at this information in a way that will help students start making some management decisions (for example, in a cash flow format).

We will practice to extract or create those reports. Finally, we will have a discussion on tax topics to make sure our records will be useful for that.

We will also work to create a list of questions we may want to ask our tax practitioner when we meet with them.

To facilitate this activity, you should be familiar with the cash flow statement, the cash flow budget, and the reports available in at least one recordkeeping tool.

It is desirable but not required that you have experience filing a Schedule F as well.

**Search engines are your friend, for learning basics about the different topics and terms of art.**



## 3. Summarizing cash records for taxes and analysis (cont.)

### PROCEDURE

After assessing participants' prior knowledge and interests, walk students through the content, either as outlined or by using any form or parts that you consider necessary. As you go, analyze the types of reports that you are able to generate from the accounting tool you are using. Some may be annual summaries, others may offer a monthly or quarterly breakdowns.

Consider how this information would help students (1) answer their tax practitioner's questions at tax-filing time, (2) create a forward-looking cash flow budget for the next year, and (3) find out whether net cash income came from operating, financing or investing activities. As some of these questions become hard to answer with the reports that come straight from the recordkeeping system, copy and paste the information into a spreadsheet and arrange it to serve those needs. Practice doing that so students get familiar with those tools, the software, and reports.

The goal is that with this activity students feel confident to cut and paste information from their recordkeeping system to their farm spreadsheet. Common uses include filing taxes, analyzing cash income, analyzing cash flows, or projecting cash flows for the next year.

### Part 1: Summary reports for tax filing

In this section we will review the different reports that can be taken from recordkeeping systems. In general, these reports provide sufficient information for tax filing. We will practice exporting the different reports from a recordkeeping system of our choice. If the group's system of choice is not represented in the materials provided, feel free to add your own materials. Note that it is useful to look at a few different recordkeeping systems report options to find what the learners like best.



## 3. Summarizing cash records for taxes and analysis (cont.)

### PROCEDURE

#### Review:

- **Overview of reports** – See PowerPoint **Slides 43 to 48**

Do a quick overview of useful reports (tax depreciation schedule, balance sheet, income statement, cash flow statement). Encourage them to select reports they see as useful. Highlight how some of these can be exported from the recordkeeping system, and some may not (especially in farming when inventory typically is grown rather than being purchased/resold). Note that you may need to ask our tax practitioner for the tax depreciation schedule. Introduce the potential need to create some reports themselves.

- **QuickBooks Reports** – See PowerPoint **Slide 49, and video**

Show the different reports that can be exported from QuickBooks.

Watch this video from Michigan State University: <https://youtu.be/aPl8WM4puYU>

- **PC Mars Reports** – See PowerPoint **Slides 50, and video**

Show the different reports that can be exported from PC Mars.

Watch this video from Michigan State University: <https://youtu.be/lVywqEaVGAw>

- **Farm Records Book Reports** – See PowerPoint **Slides 51, and video**

Show the different reports that can be exported from the MSU Farm Records Book.

Watch this video from Michigan State University:

[https://youtu.be/NK\\_JgwkJfbg](https://youtu.be/NK_JgwkJfbg)



## 3. Summarizing cash records for taxes and analysis (cont.)

### PROCEDURE

**Sample farm exercise and discussion** – See PowerPoint **Slide 52**

- Go back to the records you entered in Activity 2. Create these reports:
  - Year-to-date Summary
  - Income Statement
  - Balance Sheet
  - Depreciation Report, if able
- If the recordkeeping system you are using provides a monthly cash flow statement, create one.
- Discuss which things you can get from these recordkeeping systems that is useful to your farm business.

### Part 2: Summary reports for basic management

In this section we will practice some tweaks that you can make to your basic farm reports to get a little more information out of them.

Specifically, we will (1) analyze the summary of income and expenses (called the Statement of Cash Flows), (2) create a budget for next year, and then (3) break the budget down by month or quarter to project cash flows.



## 3. Summarizing cash records for taxes and analysis (cont.)

### PROCEDURE

#### Review:

- **Introduction to the cash flow statement** - See PowerPoint **Slides 53 to 58**

Explain the goals and parts of the cash flow statement. The cash flow statement can show us differences between the cash provided by the different types of activities at the farm. Ideally, we want the cash generated from the “Operating” part to be positive and sufficient to fund some asset purchases (such as equipment) and also to reduce debt.

#### Sample farm exercise and discussion:

- Create a monthly cash flow statement using your recordkeeping system.
- Use the annual summary of income and expenses to see where most cash came from for your example farm. What do those totals tell you?
- Identify times when you are low on cash and when you have more coming in throughout the year.

### Part 3: Farm tax basics

While it is a good idea to file farm taxes with a tax practitioner who is familiar with farm taxes, it is an even better idea to be prepared to ask them the right questions. In this section we will review basic tax considerations for beginning farmers. We strongly suggest that students have a conversation with their tax practitioner early in the year to make sure they are doing things in a way such that the information collected will be useful at the end of the year.

#### Review:

- **General income tax considerations** – See PowerPoint **Slides 59 to 66**

Describe the different tax forms that apply to farmers. Note what information is needed to complete and file them.





### 3. Summarizing cash records for taxes and analysis (cont.)

#### PROCEDURE

- **Overview of sales tax** – See PowerPoint **Slides 67 to 69**

Review the sales tax exemption for farmers and how to get it. Also review which products sales tax needs to be collected and forwarded to the state.

**Sample farm exercise and discussion** – See PowerPoint **Slide 70**

- Now that you have a better idea of how farm taxes look, do you think the example farm is keeping records of everything you need?
- Would you add anything to your records now?
- What questions would you suggest this farmer asks their tax preparer, to help better set up their recordkeeping system?



## 3. Summarizing cash records for taxes and analysis (cont.)

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## **Review and Encouraging Further Learning**

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### **Module Review and Evaluation Questions:**

- What did you learn about best practices for recordkeeping that will be useful for your business?
- What's a tool that could be useful for your recordkeeping?
- What three things did you learn today that you will apply in your recordkeeping system for your farm?

### **Activities for Review:**

- Take turns describing your farms' recordkeeping systems now, no matter how you do it.
- What are your plans for recordkeeping in the near future (an example farm can be used as an alternative as needed).
- Talk about the value of keeping business and personal records separate.



## **Review and Encouraging Further Learning (cont.)**

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### **Taking Your Knowledge Back to the Farm:**

- Develop a “chart of accounts” for your farm (see slides 16-20). What accounting categories will you need to accomplish your goals?
- Develop/get started with your recordkeeping system. Start keeping records using the most recent month’s expenses, payments, and income. If there are gaps, that is ok for now– it takes time to refine your system.
- If you already have a system in place, consider moving it to the next step (go from paper to simple spreadsheet, from spreadsheet to software program, include more details, etc.)
- Practice reconciling using a bank statement working in teams or pairs.
- Pick a crop and track the costs for producing it. In addition to obvious costs such as seed, inputs, and labor, think about what equipment is needed and what part of your land and/or buildings it takes to grow and store. Consider your time and unpaid labor and management expertise invested as well.