



Creating Farm Financial Records

MODULE 1

Beginning Farmer Curricula Series



Activity 1.

Setting up an example farm's recordkeeping system

- Part 1: Setting the farm's goals.
- Part 2: Flushing out the basics.
- Part 3: Working out some details.
- Part 4: Picking your tools.



Part 1. Setting the farm's recordkeeping goals.

Recordkeeping systems have similarities but are not all the same.

We can design our recordkeeping system based on what we hope to do with those records.

Systems can be relatively simple, or more complex.



The Importance of Records

- What can records do for me?
 - Help provide **financial direction** for business.
 - For **each of my major products**:
 - What are my costs?
 - How much do I need to charge to break even?
 - How much am I making?
 - Identify products that are **not making money** for me.



Records:

- Help you find information quickly, for making decisions!
- Can be simple and still be very useful!
- ... You can design a system that works for *you*.





Records are the basis for:

Monitoring inventories

Tax returns

Business planning and development

**Making decisions on what to grow
more of, and what to focus on less**



...and more!





What level of recordkeeping should I strive for?

- Level 1: The ability to file **TAXES** accurately.
 - With this information you can also look at the cash flow needs for the farm.
- Level 2: **FINANCIAL**. More detail enables financial analysis.
 - Look at farm assets and liabilities. Lenders use this information.
- Level 3: **DECISIONMAKING – at the Whole Farm Level**.
 - What's my true net income? (not just cash, but considering changes in inventory).
- Level 4: **DECISIONMAKING – at the Enterprise or Product Level**.
 - Detailed records allow us to determine how profitable our different products are.



Enterprise definition

- An **Enterprise** is an individual crop or type of livestock within the farm.
- “Enterprise analysis” looks at the costs, time, and revenue involved with an enterprise or product. Determine:
 - What is my breakeven cost?
 - What price should I set?
 - Am I losing money or making money at this?
- For example:
 - My sweet cherries might make a lot of revenue, but costs are high.
 - My apples are less revenue but are more profitable per pound... so I made the decision to increase the size of my apple plantings.



Part 1: Discussion

Discussion questions:

- Which level of recordkeeping is your farm at right now?
- What are the challenges you have experienced with your current recordkeeping?
- What are your goals for recordkeeping (ex. getting a loan, enterprise analysis?)
- What records might be important for reaching those goals?



Part 2: Flushing out the Basics

- **Here we look at basics:**
 - What are the main activities of recordkeeping?
 - Keeping personal and business records separate.
 - Decisions to set up our recordkeeping system: Setting up the chart of accounts



The main activities of recordkeeping are:

Classifying transactions

- What category or bucket does a transaction fit in?
 - Purchase of inputs?
 - Loan payment?
 - Sales revenue?

Storing Evidence

- Physical copies of receipts and invoices
- Electronic copies

Balancing and Reconciling

- Checkbooks and bank statements



Classifying transactions

- What is personal and what is business?
- KEEP these SEPARATE!
 - It is good practice and saves big chore time later (end of year, tax time...)
 - We cannot deduct living expenses from our farm taxes (generally)
 - Keeping these “clean” helps us to see our business more clearly too!!!



Personal

- Personal transactions (or “family living”) are those used for daily living and good health:
 - Housing rent/mortgage
 - Clothing
 - Healthcare direct costs
 - Transportation

... Also, income or wages from other jobs would be classified as “personal”.



Business

- Business transactions are those that are incurred by your farm business to make a profit.
 - Purchases of inputs – seed, compost, started plants/trees
 - Sales of farm products
 - Payments of operating loans/ credit cards
 - Payments of insurance
 - Farm equipment
- Note: it is possible to do personal recordkeeping with some farm accounting systems, but need to take care to keep them distinct.



Classifying transactions: Chart of Accounts

The basic accounts are:

- REVENUE
- EXPENSES
- ASSETS (including INVENTORY)
- LIABILITIES

These can be broken up further by your different **enterprises**.

Look at IRS Schedule F when choosing your accounting categories.





Chart of Accounts: Revenue

Revenue categories include:

- Sales
 - ... have a sub-category for each major product! Ex. Sweet cherries, apples, potatoes
 - ... you *don't* need a category for each variety of a product, but it can be useful!
- Custom work income
 - Rototilling a neighboring farmer's field
- Rental income
 - Renting equipment, land, hoophouse space to another farmer
- Government payments (farm programs)
- Patronage dividends (from cooperatives you work with)



Chart of Accounts: Expenses

Expense categories include:

- Supplies
- Equipment repairs
- Insurance
- Fuel
- Marketing costs
- Labor you pay others, or custom work you pay for
- Professional services (tax preparation, etc.)



Chart of Accounts: Assets

Asset categories include:

- Bank account balances
- Equipment/ Machinery
- Buildings
- Land
- Inventory

Inventory includes:

- Crops (standing or in storage)
 - Example: I have 20 bushels of apples in the cooler, 20 bushels of potatoes in the cooler, and about 40 bushels of apples in the field. Onions are sold out.
- Livestock

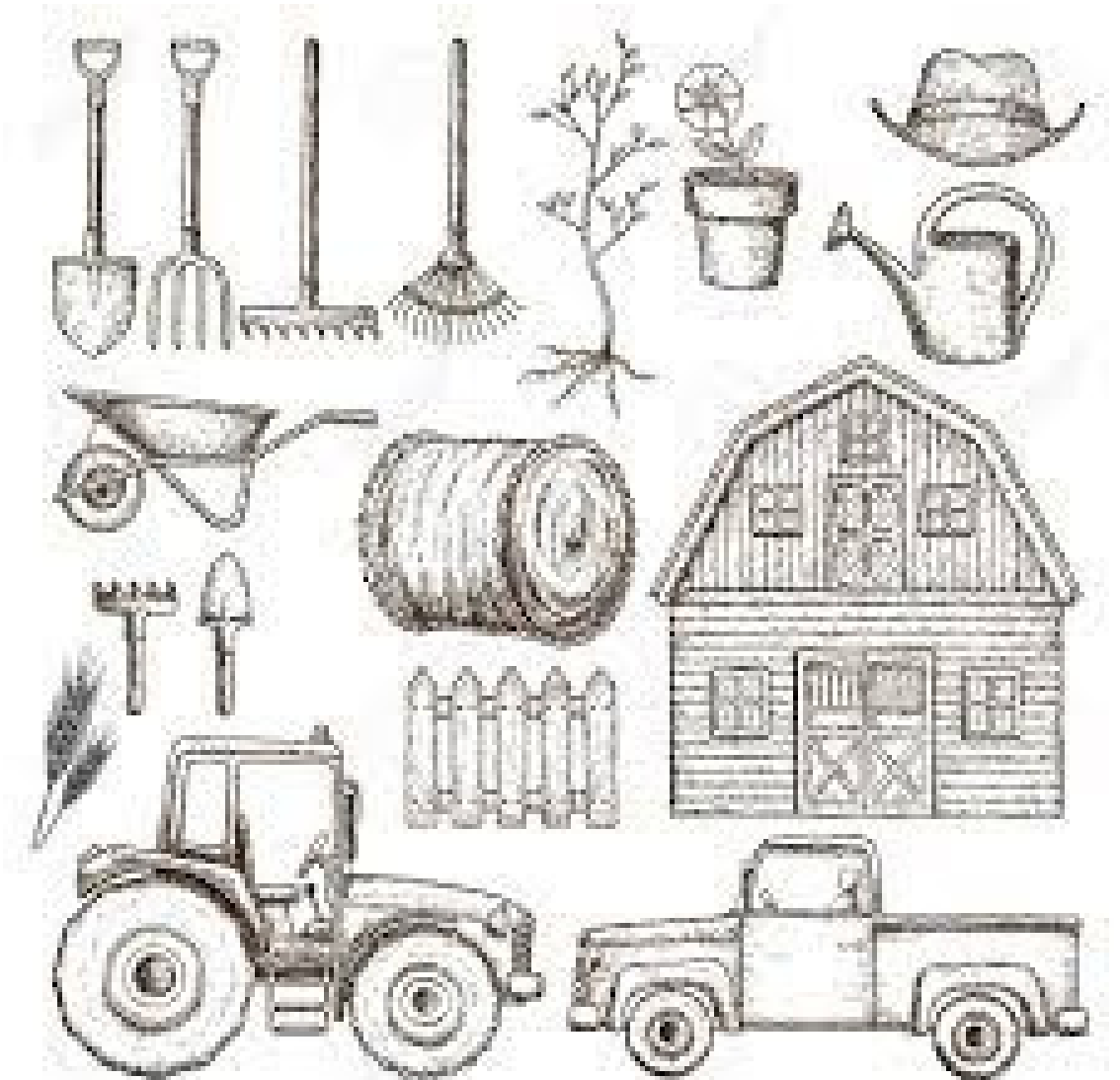




Chart of Accounts: Liabilities

Liability categories include:

- Operating loans/ credit lines
- Machinery loan
- Land mortgage payments
- Building loans

... basically, all debts.





Part 2: Discussion and Handout #1

Discussion questions:

- Do you keep personal and business records separate?
- What categories do you use for expenses/ revenue/ etc.?
- Do you have sub-categories for different products or enterprises?

Go over Handout #1.



Part 3: Working out some details

Here we look at:

- Special types of accounts
- Methods of recordkeeping



Special accounts

- There are some accounts that can help us track more complex items.
 - For Assets:
 - **Accounts receivable** – products that you sold but haven't gotten paid for yet!
 - **Prepaid expenses** – fertilizer, seed, other inputs
 - **Inventory**, mentioned in Part 2, is a special asset account
 - For Liabilities:
 - **Accounts payable** – something you purchased but didn't pay for yet (waiting on invoice, etc.)
 - **Accrued expenses** – interest on loans, property taxes that are accumulating but not yet due



Special Accounts

- For Expenses:

- **Depreciation** – the loss in value for equipment or other assets over time.
 - Vehicles, machinery, fences, irrigation wells, etc.
 - The depreciation amount for each asset is calculated by dividing their original cost over time, minus its salvage value, over its useful life.
 - The “useful life” of different assets and equipment are often defined by the IRS
 - Depreciation can be deducted from revenue for tax purposes.
 - NOTE: Land is *not* a depreciable expense.





Methods of recordkeeping:

What information is needed for recordkeeping?

For each transaction, we want:

- **Date**
- **Amount of \$**
- **Description**
- **Name** of other party (Who you paid or who you sold it to/ received it from)

ADD MISSING INFORMATION to receipts that don't have all the information! This is easy to do at the time/ when you get back to the farm/home!

Note also that it is a good practice to note check numbers where applicable.





Methods of recordkeeping:

Where do we keep this information? Methods:

- **SHOEBOX.** Ok, but has drawbacks. Better than nothing!
- **JOURNAL.** Yes! Put the information in a common record, either electronically or paper (recommend electronic!)
- **GENERAL LEDGER.** The ledger is a statement that shows all the different account categories for the business, with running totals for each.
 - If you use an electronic journal, it can automatically update the ledger!!



61 Register						Register					
LINE	NAME	DATE	AMOUNT	DATE	NAME	LINE	NAME	DATE	AMOUNT	DATE	NAME
00	Bayer Seed Co. Midwest	4/7	1990	73	City	Embroidery	700				
01	St. Louis Co.	4/7	10	74	City	St. Louis Co.	701				
02	E. D. Marshall Co.	4/7	385	75	City	St. Louis Co.	702				
03	Bedford, Ind.	4/7	520	76	City	St. Louis Co.	703				
04	Columbia Co.	4/8	0	77	City	St. Louis Co.	704				
05	Joseph, Mo.	4/8	7528	78	City	St. Louis Co.	705				
06	Walt Dantz Co.	4/8	1840	79	City	St. Louis Co.	706				
07	Wood & Son Co.	4/8	72	80	City	St. Louis Co.	707				
08	Agate & Son Co.	4/8	1625	81	City	St. Louis Co.	708				
09	Agate & Son Co.	4/8	1244	82	City	St. Louis Co.	709				
10	Columbia Co.	4/8	120	83	City	St. Louis Co.	710				
11	Columbia Co.	4/8	13615	84	City	St. Louis Co.	711				
12	Empire Co.	4/8	1890	85	City	St. Louis Co.	712				
13	John & Son Co.	4/8	144	86	City	St. Louis Co.	713				
14	Whitaker Co.	4/8	223	87	City	St. Louis Co.	714				
15	Brinkley, Okla.	4/8	29716	88	City	St. Louis Co.	715				
16	Craig Co. - Mrs. Rogers	4/8	6378	89	City	St. Louis Co.	716				
17	Albany Co.	4/8	4	90	City	St. Louis Co.	717				



Methods of recordkeeping:

Just to note:

- There are a couple of accounting options that are worth noting briefly, but are outside of the scope of this curriculum:
 - **Cash** versus the **Accrual** method. **Most farms will use the cash method.** Each have their advantages, with the cash method being more simple. With good recordkeeping, the advantages of the accrual method can be approximated with financial analysis.
 - **Single Entry** versus **Double Entry**. Single entry is more simple and a good place for beginners to start. With a double entry system, two account categories are affected by each transaction. This can account well for all monies and lead to less potential for mistakes (and fraud!)



Part 3: Discussion

Discussion questions:

- Do you have loans? How do you keep track of them?
- Do you take inventory, if so at what times?
- Do you use more than one checking account? Do you move money between them? If so, do you keep track?
- Do you have any depreciable items? Describe.



Part 4: Picking your Tools.

Here we discuss recordkeeping tools, from receipt storage to spreadsheets and software:

- Tools for recording journal entries
 - PcMars
 - Quickbooks
- Farm Records Book
- Receipt Storage systems
- Balancing and Reconciling



Tools for Recording Journal Entries

Here are some commonly used tools:

- **PAPER.** It still works!
- **SPREADSHEETS.** These abound. It is possible to design





Tools for Recording Journal Entries

- **SOFTWARE:**

- **PcMars** is a farm-specific software. We will illustrate PcMars in Activity 2.
 - Affordable - \$75 per year
 - That price includes basic payroll, detailed tax reports
 - Easy / simple to use
 - Carries over from one year to next
 - Great customer support
- **QuickBooks** is a popular accounting software. It has now added more categories useful for farmers. We will illustrate QuickBooks entry in Activity 2.
 - User-friendly
 - Accountants like it
 - Good for reports
- Web-based applications (ex. QuickBooks Online version): Pros and cons to desktop



Tools for Recording Journal Entries

- **APPS:** There are applications you can download on your phone. Free ones include Wave and Toshl.



- For a nice overview for using Wave to import and categorize transactions, see:
<https://www.youtube.com/playlist?list=PLRkEX4P2CrcqWkwHIFXCvFiZXnpV44Yc5>



Tools: Farm Records Book

The Farm Records Book is a worksheet developed to help farmers keep records that will work with tax filing needs.

This spreadsheet is available free of charge:

- Download at: bit.ly/farmrecordsbook
- See the video instructions at: https://youtu.be/NK_Jgw
- The workbook is also available in a paper version at the Extension office.

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Farm Records Book For Management

Extension Bulletin E-1144
Prepared by Florencia Colella

Revised October 11th, 2023



Tools: Receipt Storage Systems

IRS requires receipts to be held to prove the deductions we make.

- **PAPER.** Notepads, envelopes, accordion binders work. Shoebox is better than nothing!
- **DIGITAL** options. There are many apps, including:
 - Google Photos, Google Drive, Office Lens, OneDrive
 - The Recordkeeping Form – allows you to upload a picture to your Google Drive: bit.ly/recordkeepingform





Balancing and Reconciling

“Bank Reconciliation” is a process that is needed to ensure that bank account balances are correct and have sufficient funds.

- Requires records from the bank
- We compare the bank’s records with our records

“Inventory Reconciliation” looks at what is in storage, what was harvested, and what is sold.

- Common for grain farmers
- Also a consideration for farmers working with cooperatives, other product holders

“Balancing” is an internal process that verifies that our accounting is accurate/ working.



Part 4: Discussion

Discussion questions:

- How do you store your receipts?
- Do you use apps at all to store receipts? Pros/Cons?
- What recordkeeping system do you currently use? Pros/Cons?



Activity 2.

Entering a series of example transactions into a recordkeeping system.

- Part 1: Entering Transactions into QuickBooks
- Part 2: Entering Transactions into Pc Mars



Part 1. Entering transactions into QuickBooks

Watch the following video from MSU Extension:

https://drive.google.com/file/d/13l_UCIFI4ErVryF-u-Oz5fDZ6YLi5M2L/view?usp=drivesdk



Part 1: Discussion and Handout #2

Refer the list of practice transactions on Handout #2 and enter them into QuickBooks.

- How do you enter in a common bill?
- How do you record a loan payment?
- How do you record crop sales?



Part 2. Entering transactions into PC Mars

Watch the following video from MSU Extension:

https://drive.google.com/file/d/12yZzOLgJ-sxaNyu1TfxeKo_OW_PQbv8C/view?usp=drivesdk



Part 2: Discussion and Handout #2

Refer the list of practice transactions in Handout #2 and enter them into PC Mars.

- How do you enter in a common bill?
- How do you record a loan payment?
- How do you record crop sales?



Activity 3.

Summarizing cash records for taxes and financial analysis.

- Part 1: Summary reports for tax filing
- Part 2: Summary reports for basic management
- Part 3: Farm tax basics



Part 1: Summary Reports for Tax Filing

Here we review the different reports for tax filing that can be generated by our recordkeeping systems.

- Overview of reports
- QuickBooks reports
- PC Mars reports
- Farm Records Book Reports



Overview of reports.

Depreciation schedule. The depreciation schedule summarizes the annual tax write-off for each asset:

- Equipment
- Buildings
- Trees / vines
- Livestock in certain cases

Not all assets are “depreciable” — **LAND** cannot be depreciated.

Appendix A
MACRS Percentage Table Guide
General Depreciation System (GDS)
Alternative Depreciation System (ADS)

Chart 1. Use this chart to find the correct percentage table to use for any property other than residential rental and nonresidential real property. Use Chart 2 for residential rental and nonresidential real property.

MACRS System	Depreciation Method	Recovery Period	Convention	Class	Month or Quarter Placed in Service	Table
GDS	200%	GDS/3, 5, 7, 10	Half-Year	3, 5, 7, 10	Any	A-1
GDS	200%	GDS/3, 5, 7, 10	Mid-Quarter	3, 5, 7, 10	1st Qtr 2nd Qtr 3rd Qtr 4th Qtr	A-2 A-3 A-4 A-5
GDS	150%	GDS/3, 5, 7, 10	Half-Year	3, 5, 7, 10	Any	A-14
GDS	150%	GDS/3, 5, 7, 10	Mid-Quarter	3, 5, 7, 10	1st Qtr 2nd Qtr 3rd Qtr 4th Qtr	A-15 A-16 A-17 A-18
GDS	150%	GDS/15, 20	Half-Year	15 & 20	Any	A-1
GDS	150%	GDS/15, 20	Mid-Quarter	15 & 20	1st Qtr 2nd Qtr 3rd Qtr 4th Qtr	A-2 A-3 A-4 A-5
GDS	SL	GDS	Half-Year	Any	Any	A-8
ADS	SL	ADS	Mid-Quarter	Any	1st Qtr 2nd Qtr 3rd Qtr 4th Qtr	A-9 A-10 A-11 A-12
ADS	150%	ADS	Half-Year	Any	Any	A-14
ADS	150%	ADS	Mid-Quarter	Any	1st Qtr 2nd Qtr 3rd Qtr 4th Qtr	A-15 A-16 A-17 A-18

Chart 2. Use this chart to find the correct percentage table to use for residential rental and nonresidential real property. Use Chart 1 for all other property.

MACRS System	Depreciation Method	Recovery Period	Convention	Class	Month or Quarter Placed in Service	Table
GDS	SL	GDS/27.5	Mid-Month	Residential Rental	Any	A-6
GDS	SL	GDS/31.5	Mid-Month	Nonresidential Real	Any	A-7
ADS	SL	ADS/39	Mid-Month	Residential Rental	Any	A-7a
ADS	SL	ADS/39	Mid-Month	Residential Rental	Any	A-13
ADS	SL	ADS/40	Mid-Month	Residential Rental and Nonresidential Real	Any	A-13a

Chart 3. Income Inclusion Amount Rates for MACRS Leased Listed Property

	Table
Amount A Percentages	A-19
Amount B Percentages	A-20



The **depreciation schedule** includes information for each asset:

- Purchase date and cost
- Useful life
- Deprecation taken already, and how much is left to take in the future
- Salvage value
- Depreciation method chosen (straight line, etc.)



Balance sheet

The balance sheet summarizes **what a business owns and owes.**

- It looks at:
 - Assets
 - Liability
 - Owner's equity

The “balances” on the sheet should be

- $\text{Assets} = \text{liabilities} + \text{owner equity}$

Assets		Liabilities and Capital	
Current Assets		Current Liabilities	
Cash	\$1,000	Accounts Payable	\$500
Accounts Receivable	\$2,000	Notes Payable	\$1,000
Inventory	\$1,500	Other	\$500
Other	\$700	Subtotal	\$2,000
Subtotal	\$5,200	Long-term Liabilities	\$1,000
Long-term Assets		Total Liabilities	\$3,000
Office furniture	\$1,000	Capital	
Vehicles	\$3,000	Earnings	\$300
Subtotal	\$4,000	Retained earnings	\$900
Less Accumulated Depreciation	\$1,000	Paid-in Capital	\$4,000
Subtotal	\$3,000	Total Capital	\$5,200
Total Assets	\$8,200	Total Liabilities & Capital	\$8,200



Income Statement

The income statement tracks revenues and expenses.

- Revenue is the value gained, or money gathered from sales (or services)
- Expenses are the costs, or money spent to produce.
- **Net Farm Income = Revenue - Expenses**

INCOME	60 full shares @ \$600	\$36,000
	100 half shares @ \$400	40,000
	Total income	\$76,000
EXPENSES	Garden Lease	
	Biodynamic Certification	\$1,100
	Other Administrative	500
	Seeds and Plants	2,500
	Compost, mulch, etc.	2,000
	Supplies	2,000
	Fuel	1,500
	Utilities	600
	Maintenance and Tools	4,500
	Truck Expenses	1,000
	Crops from Other Farms	3,200
	Salaries (2)	30,000
	FICA (1/2)	2,500
	Health Insurance	2,100
	Housing	3,000
	Volunteer Labor Costs	11,000
	Loan Payments	4,440
	Principal	560
	Interest	
	Total expenses	\$75,000



Statement of Cash Flows

The cash flow statement looks at **revenue and expenses** for each period (per month or quarter).

- Tells us how much money is needed at different times of year
- Shows us we have money to pay bills at important points
- We can compare to budgets we made beforehand



QuickBooks Reports

- Watch the following video from MSU Extension:

<https://drive.google.com/file/d/146WvWw9lXEKPdUbhJ858GsCcgwQHM5lY/view?usp=drivesdk>



PC Mars Reports

- Watch the following video from MSU Extension:

<https://drive.google.com/file/d/12fO3fLGqkQixR0ecMTcNZE51D4RY4Kqi/view?usp=drivesdk>



Farm Records Book Reports

- Watch the following video from MSU Extension:

https://youtu.be/NK_JgwkJfbg



Part 1: Discussion

Develop these reports with one of the systems:

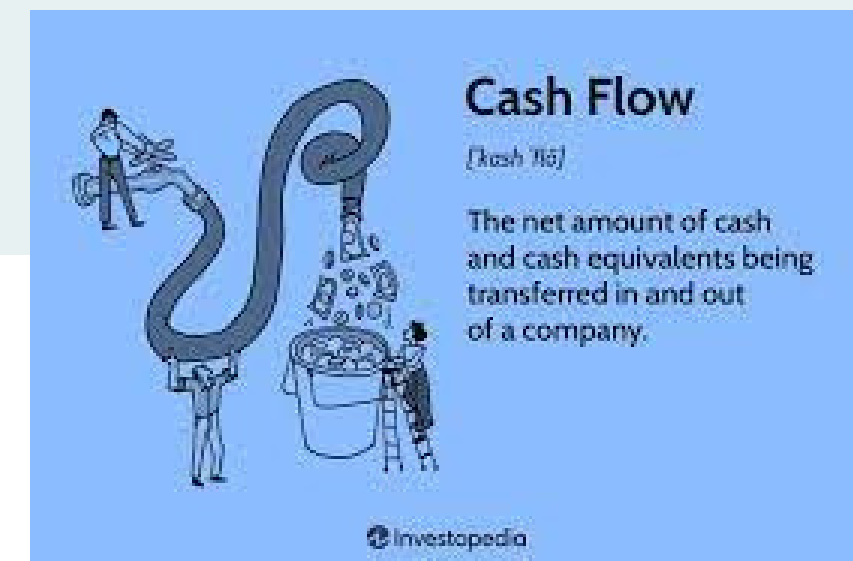
- **Depreciation schedule:** How can it be interpreted? How much can I write off this year?
- **Balance sheet:** What aspects are clear and what are not? Does it add up?
- **Income statement:** What categories of expenses are included?



Part 2: Using Reports for Basic Management

In this section:

- We continue with some basic analysis of our records, especially the cash flow statement.
- We look at building a budget – projections for next year.



Purpose of the Statement of Cash Flows:

- Summarize cash flow performance
- Consider both cash in and cash out
- Reconcile beginning cash on hand with ending cash on hand
- Does NOT include noncash transactions, EVEN THOUGH they impact profit / equity



Statement of Cash Flows, cont.

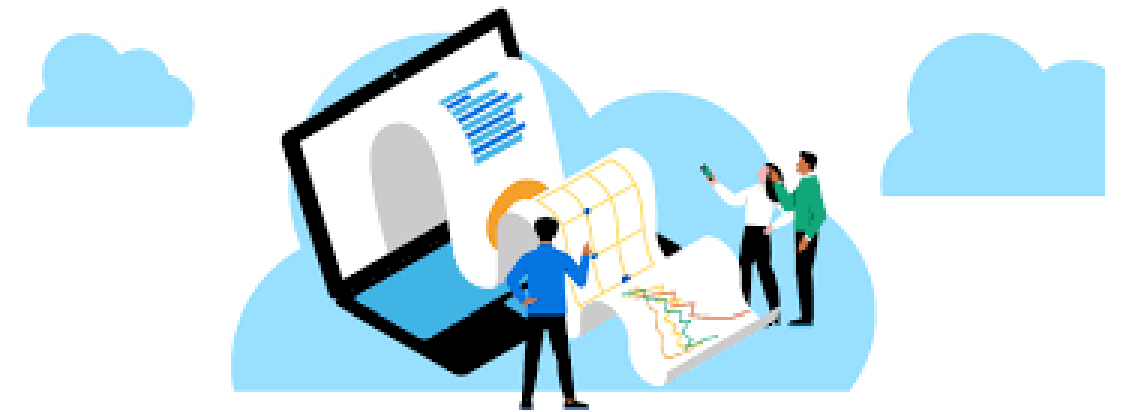


- The statement is a:
 - Summary of actual cash inflows and cash outflows during the **past** accounting period (usually a calendar year)
 - **NOT** a Cash Flow Budget or Projection



Insight from the Statement of Cash Flows

1. What was the cash used for?
2. Where did the cash come from?
3. What is the business's ability to make loan payments ("service debt")?
4. Is the cash generated enough to pay yourself throughout the year?





Cash Flow Projections

Using last year's cash flow statement, we can make projections.

Cash flow projections are a forecast of:

- Expected income
- Expected expenses

We use these to help develop a budget:

- Plan for meeting cash flow needs
- When we can (and when we can't) make that purchase



Part 2: Discussion

- Look at an example cash flow statement from your recordkeeping system: What months are expenses highest?

Now consider a **Cash Flow Projection**:

- Consider how we can plan to meet those cash flow needs.
- Do we need an operating loan for a certain period?
- Can we hold back cash in anticipation of high expense months?

In short... how do we budget and plan to 'bridge the gaps'?





Part 3: Farm Tax Basics

Here we look at some basics about farm business taxes.

- General income tax considerations for start-up farms
- Overview of sales tax



General Income Tax Accounting

We will look briefly at:

- Schedule F (for farming businesses)
- Form 1040
- General categories for income and expenses
- Depreciation
- Self employment tax





Schedule F

Information on Schedule F is similar to sections on the Income Statement:

■ Income:

■ Expenses:

SCHEDULE F
(Form 1040)

Department of the Treasury
Internal Revenue Service (99)

Profit or Loss From Farming

► Attach to Form 1040, Form 1040-SR, Form 1040-NR, Form 1041, or Form 1065.
► Go to www.irs.gov/ScheduleF for instructions and the latest information.

OMB No. 1545-0074
2021
Attachment
Sequence No. **14**

Name of proprietor _____ Social security number (SSN) _____

A Principal crop or activity _____ **B** Enter code from Part IV _____ **C** Accounting method: ☐ Cash ☐ Accrual _____ **D** Employer ID number (EIN) (see instr.) _____

E Did you "materially participate" in the operation of this business during 2021? If "No," see instructions for limit on passive losses ☐ Yes ☐ No
F Did you make any payments in 2021 that would require you to file Form(s) 1099? See instructions ☐ Yes ☐ No
G If "Yes," did you or will you file required Form(s) 1099? ☐ Yes ☐ No

Part I Farm Income—Cash Method. Complete Parts I and II. (Accrual method. Complete Parts II and III, and Part I, line 9.)

1a Sales of purchased livestock and other resale items (see instructions)	1a _____	
b Cost or other basis of purchased livestock or other items reported on line 1a	1b _____	
c Subtract line 1b from line 1a		1c _____
2 Sales of livestock, produce, grains, and other products you raised		2 _____
3a Cooperative distributions (Form(s) 1099-PATR)	3a _____	3b Taxable amount 3b _____
4a Agricultural program payments (see instructions)	4a _____	4b Taxable amount 4b _____
5a Commodity Credit Corporation (CCC) loans reported under election		5a _____
b CCC loans forfeited	5b _____	5c Taxable amount 5c _____
6 Crop insurance proceeds and federal crop disaster payments (see instructions):		
a Amount received in 2021	6a _____	6b Taxable amount 6b _____
c If election to defer to 2022 is attached, check here <input type="checkbox"/> 6d Amount deferred from 2020		6d _____
7 Custom hire (machine work) income		7 _____
8 Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)		8 _____
9 Gross income. Add amounts in the right column (lines 1c, 2, 3b, 4b, 5a, 5c, 6b, 6d, 7, and 8). If you use the accrual method, enter the amount from Part III, line 50. See instructions		9 _____

Part II Farm Expenses—Cash and Accrual Method. Do not include personal or living expenses. See instructions.

10 Car and truck expenses (see instructions). Also attach Form 4562	10 _____	23 Pension and profit-sharing plans 23 _____
11 Chemicals	11 _____	24 Rent or lease (see instructions):
12 Conservation expenses (see instructions)	12 _____	a Vehicles, machinery, equipment 24a _____
13 Custom hire (machine work)	13 _____	b Other (land, animals, etc.) 24b _____
14 Depreciation and section 179 expense (see instructions)	14 _____	25 Repairs and maintenance 25 _____
15 Employee benefit programs other than on line 23	15 _____	26 Seeds and plants 26 _____
16 Feed	16 _____	27 Storage and warehousing 27 _____
17 Fertilizers and lime	17 _____	28 Supplies 28 _____
18 Freight and trucking	18 _____	29 Taxes 29 _____
19 Gasoline, fuel, and oil	19 _____	30 Utilities 30 _____
20 Insurance (other than health)	20 _____	31 Veterinary, breeding, and medicine 31 _____
21 Interest (see instructions):		32 Other expenses (specify):
a Mortgage (paid to banks, etc.)	21a _____	a _____ 32a _____
b Other	21b _____	b _____ 32b _____
22 Labor hired (less employment credits)	22 _____	c _____ 32c _____
		d _____ 32d _____
		e _____ 32e _____
		f _____ 32f _____
33 Total expenses. Add lines 10 through 32f. If line 32f is negative, see instructions		33 _____
34 Net farm profit or (loss). Subtract line 33 from line 9		34 _____
35 Reserved for future use.		
36 Check the box that describes your investment in this activity and see instructions for where to report your loss:		



- Farming income goes on Schedule F...
- Schedule F is reported on Schedule 1...
- and, Schedule 1 is reported on the 1040 here:

Form 1040 Department of the Treasury—Internal Revenue Service (99) **2021** U.S. Individual Income Tax Return OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

Filing Status ☐ Single ☐ Married filing jointly ☐ Married filing separately (MFS) ☐ Head of household (HOH) ☐ Qualifying widow(er) (QW)
Check only one box. If you checked the MFS box, enter the name of your spouse. If you checked the HOH or QW box, enter the child's name if the qualifying person is a child but not your dependent ▶

Your first name and middle initial	Last name	Your social security number
If joint return, spouse's first name and middle initial	Last name	Spouse's social security number

Home address (number and street). If you have a P.O. box, see instructions. Apt. no. **Presidential Election Campaign**
City, town, or post office. If you have a foreign address, also complete spaces below. State ZIP code Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund.
Foreign country name Foreign province/state/county Foreign postal code ☐ You ☐ Spouse

At any time during 2021, did you receive, sell, exchange, or otherwise dispose of any financial interest in any virtual currency? ☐ Yes ☐ No

Standard Deduction **Someone can claim:** ☐ You as a dependent ☐ Your spouse as a dependent ☐ Spouse itemizes on a separate return or you were a dual-status alien

Age/Blindness **You:** ☐ Were born before January 2, 1957 ☐ Are blind **Spouse:** ☐ Was born before January 2, 1957 ☐ Is blind

Dependents (see instructions):
If more than four dependents, see instructions and check here ▶ ☐

(1) First name	Last name	(2) Social security number	(3) Relationship to you	(4) <input checked="" type="checkbox"/> if qualifies for (see instructions):	
				Child tax credit	Credit for other dependents
				<input type="checkbox"/>	<input type="checkbox"/>
				<input type="checkbox"/>	<input type="checkbox"/>
				<input type="checkbox"/>	<input type="checkbox"/>
				<input type="checkbox"/>	<input type="checkbox"/>

1 Wages, salaries, tips, etc. Attach Form(s) W-2	1
2a Tax-exempt interest	2a
3a Qualified dividends	3a
4a IRA distributions	4a
5a Pensions and annuities	5a
6a Social security benefits	6a
7 Capital gain or (loss). Attach Schedule D if required. If not required, check here	7
8 Other income from Schedule 1, line 10	8
9 Add lines 1, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your total income	9
10 Adjustments to income from Schedule 1, line 26	10
11 Subtract line 10 from line 9. This is your adjusted gross income	11
12a Standard deduction or itemized deductions (from Schedule A)	12a
b Charitable contributions if you take the standard deduction (see instructions)	12b
c Add lines 12a and 12b	12c
13 Qualified business income deduction from Form 8995 or Form 8995-A	13
14 Add lines 12c and 13	14
15 Taxable income. Subtract line 14 from line 11. If zero or less, enter -0-	15

Standard Deduction for—
• Single or **\$12,550**
• Married filing jointly or Qualifying widow(er), **\$25,100**
• Head of household, **\$18,800**
• If you checked any box under **Standard Deduction**, see instructions.

Attach Sch. B if required.

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11320B Form **1040** (2021)



Income categories

- Sales of produce / livestock
- Sales of items you purchased and resold
- Payments from the co-op
- Crop insurance

Part I		Farm Income—Cash Method. Complete Parts I and II. (Accrual method. Complete Parts II and III, a	
1a	Sales of purchased livestock and other resale items (see instructions)	1a	
b	Cost or other basis of purchased livestock or other items reported on line 1a	1b	
c	Subtract line 1b from line 1a		
2	Sales of livestock, produce, grains, and other products you raised		
3a	Cooperative distributions (Form(s) 1099-PATR)	3a	
		3b	Taxable amount
4a	Agricultural program payments (see instructions)	4a	
		4b	Taxable amount
5a	Commodity Credit Corporation (CCC) loans reported under election		
b	CCC loans forfeited	5b	
		5c	Taxable amount
6	Crop insurance proceeds and federal crop disaster payments (see instructions):		
a	Amount received in 2021	6a	
		6b	Taxable amount
c	If election to defer to 2022 is attached, check here <input type="checkbox"/>	6d	Amount deferred from 2020
7	Custom hire (machine work) income		
8	Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)		
9	Gross income. Add amounts in the right column (lines 1c, 2, 3b, 4b, 5a, 5c, 6b, 6d, 7, and 8). If you use the		



Expense categories

- Vehicle costs
- Fertilizer
- Sprays/ chemicals
- Fuel
- Insurance
- Seeds
- Supplies
- Rent

accrual method, enter the amount from Part III, line 30. See instructions

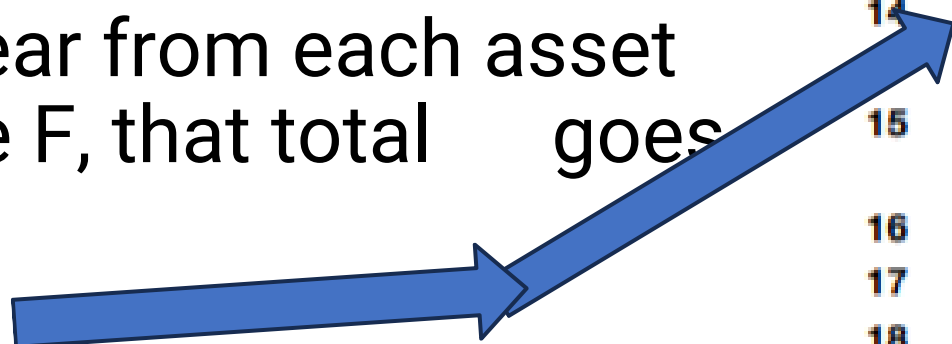
Part II Farm Expenses — Cash and Accrual Method. Do not include personal or living expenses. See instructions.			
10	Car and truck expenses (see instructions). Also attach Form 4562	10	
11	Chemicals	11	
12	Conservation expenses (see instructions)	12	
13	Custom hire (machine work)	13	
14	Depreciation and section 179 expense (see instructions)	14	
15	Employee benefit programs other than on line 23	15	
16	Feed	16	
17	Fertilizers and lime	17	
18	Freight and trucking	18	
19	Gasoline, fuel, and oil	19	
20	Insurance (other than health) . . .	20	
21	Interest (see instructions):		
a	Mortgage (paid to banks, etc.) . . .	21a	
b	Other	21b	
22	Labor hired (less employment credits)	22	
23	Pension and profit-sharing plans . .	23	
24	Rent or lease (see instructions):		
a	Vehicles, machinery, equipment . .	24a	
b	Other (land, animals, etc.)	24b	
25	Repairs and maintenance	25	
26	Seeds and plants	26	
27	Storage and warehousing	27	
28	Supplies	28	
29	Taxes	29	
30	Utilities	30	
31	Veterinary, breeding, and medicine .	31	
32	Other expenses (specify):		
a	.....	32a	
b	.....	32b	
c	.....	32c	
d	.....	32d	
e	.....	32e	
f	.....	32f	
33	Total expenses. Add lines 10 through 32f. If line 32f is negative, see instructions ▶	33	
34	Net farm profit or (loss). Subtract line 33 from line 9	34	

If a profit, stop here and see instructions for where to report. If a loss, complete line 36.



Depreciation

- Depreciation is an Expense item.
- Look at the depreciation schedule:
 - Add all the amounts we can claim this year from each asset
 - On Schedule F, that total goes here:



accrual method, enter the amount from Part III, line 30. See instructions				9				
Part II Farm Expenses — Cash and Accrual Method. Do not include personal or living expenses. See instructions								
10	Car and truck expenses (see instructions). Also attach Form 4562	10		23	Pension and profit-sharing plans	23		
11	Chemicals	11		24	Rent or lease (see instructions):			
12	Conservation expenses (see instructions)	12		a	Vehicles, machinery, equipment	24a		
13	Custom hire (machine work)	13		b	Other (land, animals, etc.)	24b		
14	Depreciation and section 179 expense (see instructions)	14		25	Repairs and maintenance	25		
15	Employee benefit programs other than on line 23	15		26	Seeds and plants	26		
16	Feed	16		27	Storage and warehousing	27		
17	Fertilizers and lime	17		28	Supplies	28		
18	Freight and trucking	18		29	Taxes	29		
19	Gasoline, fuel, and oil	19		30	Utilities	30		
20	Insurance (other than health)	20		31	Veterinary, breeding, and medicine	31		
21	Interest (see instructions):			32	Other expenses (specify):			
a	Mortgage (paid to banks, etc.)	21a		a		32a		
b	Other	21b		b		32b		
22	Labor hired (less employment credits)	22		c		32c		
33	Total expenses. Add lines 10 through 32f. If line 32f is negative, see instructions				d		32d	
34	Net farm profit or (loss). Subtract line 33 from line 9				e		32e	
	If a profit, stop here and see instructions for where to report. If a loss, complete line 36.				f		32f	



Self Employment Tax

Self Employment tax must be paid on most farm income.

- Exceptions for rent, sales of business property, etc.

- Rates: 15.3% total
 - 12.4% is Social Security
 - 2.9% for Medicare

SCHEDULE SE (Form 1040)		Self-Employment Tax		OMB No. 1545-0074	
Department of the Treasury Internal Revenue Service (99)		▶ Go to www.irs.gov/ScheduleSE for instructions and the latest information. ▶ Attach to Form 1040, 1040-SR, or 1040-NR.		2021 Attachment Sequence No. 17	
Name of person with self-employment income (as shown on Form 1040, 1040-SR, or 1040-NR)			Social security number of person with self-employment income ▶		
Part I Self-Employment Tax					
Note: If your only income subject to self-employment tax is church employee income , see instructions for how to report your income and the definition of church employee income.					
A If you are a minister, member of a religious order, or Christian Science practitioner and you filed Form 4361, but you had \$400 or more of other net earnings from self-employment, check here and continue with Part I <input type="checkbox"/>					
Skip lines 1a and 1b if you use the farm optional method in Part II. See instructions.					
1a Net farm profit or (loss) from Schedule F, line 34, and farm partnerships, Schedule K-1 (Form 1065), box 14, code A			1a		
b If you received social security retirement or disability benefits, enter the amount of Conservation Reserve Program payments included on Schedule F, line 4b, or listed on Schedule K-1 (Form 1065), box 20, code AH			1b		()
Skip line 2 if you use the nonfarm optional method in Part II. See instructions.					
2 Net profit or (loss) from Schedule C, line 31; and Schedule K-1 (Form 1065), box 14, code A (other than farming). See instructions for other income to report or if you are a minister or member of a religious order			2		
3 Combine lines 1a, 1b, and 2			3		
4a If line 3 is more than zero, multiply line 3 by 92.35% (0.9235). Otherwise, enter amount from line 3			4a		
Note: If line 4a is less than \$400 due to Conservation Reserve Program payments on line 1b, see instructions.					
b If you elect one or both of the optional methods, enter the total of lines 15 and 17 here			4b		
c Combine lines 4a and 4b. If less than \$400, stop ; you don't owe self-employment tax. Exception: If less than \$400 and you had church employee income , enter -0- and continue ▶			4c		
5a Enter your church employee income from Form W-2. See instructions for definition of church employee income			5a		
b Multiply line 5a by 92.35% (0.9235). If less than \$100, enter -0-			5b		
6 Add lines 4c and 5b			6		
7 Maximum amount of combined wages and self-employment earnings subject to social security tax or the 6.2% portion of the 7.65% railroad retirement (tier 1) tax for 2021			7		142,800
8a Total social security wages and tips (total of boxes 3 and 7 on Form(s) W-2) and railroad retirement (tier 1) compensation. If \$142,800 or more, skip lines 8b through 10, and go to line 11			8a		
b Unreported tips subject to social security tax from Form 4137, line 10			8b		
c Wages subject to social security tax from Form 8919, line 10			8c		
d Add lines 8a, 8b, and 8c			8d		
9 Subtract line 8d from line 7. If zero or less, enter -0- here and on line 10 and go to line 11 ▶			9		
10 Multiply the smaller of line 6 or line 9 by 12.4% (0.124)			10		
11 Multiply line 6 by 2.9% (0.029)			11		
12 Self-employment tax. Add lines 10 and 11. Enter here and on Schedule 2 (Form 1040), line 4			12		
13 Deduction for one-half of self-employment tax. Multiply line 12 by 50% (0.50). Enter here and on Schedule 1 (Form 1040), line 15			13		
Part II Optional Methods To Figure Net Earnings (see instructions)					
Farm Optional Method. You may use this method only if (a) your gross farm income ¹ wasn't more than \$8,820, or (b) your net farm profits ² were less than \$6,367					



Overview of Sales Tax



- Sales tax that you collect must be paid to the state, for example the state of Michigan charges 6%
- However, some items are *exempt* from sales tax.
- If you sell items that require sales tax, you must apply for a Sales Tax License:
 - See an example sales tax FAQ for businesses (Michigan):
<https://www.michigan.gov/taxes/business-taxes/sales-use-tax/information/sales-tax-license-faq>



Overview of Sales Tax, cont.

For **collecting** sales tax:

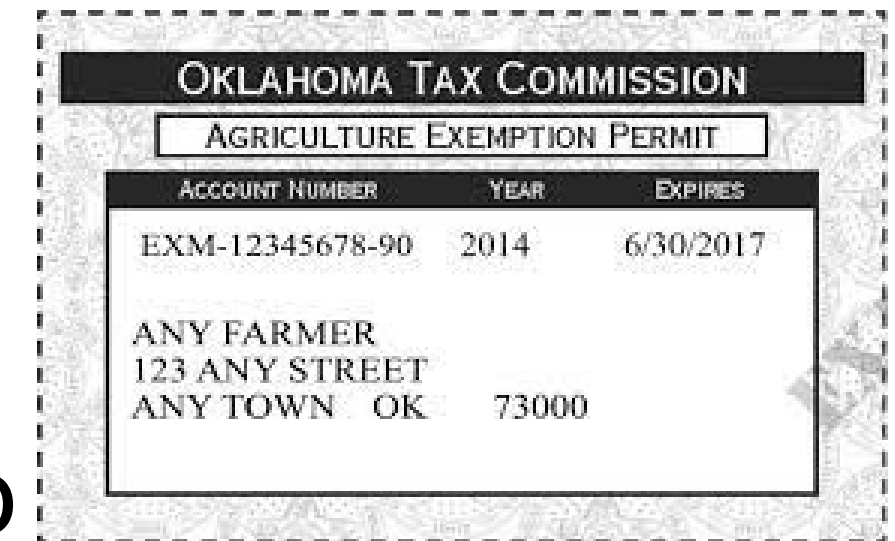
- There is generally no sales tax on raw produce and food items:
 - Whole fruit and vegetables
 - Grains
 - Most baked goods
 - Raw meats
- However, sales tax needs to be collected for ready-to-eat **prepared foods**



Overview of Sales Tax, cont.

Farm exemption for purchases:

- Farmers do not have to pay sales tax on many items used on production, for example:
 - Fertilizer
 - Seed
 - Feed
- However, you need a “sales tax exempt” number to your suppliers.
 - The certificate of exemption for Michigan may be found online at michigan.gov/documents/taxes/3372_216612_7.pdf.





Part 3: Discussion

Refer to the tax forms presented.

- Discuss where we can use the same categories for accounting as is used in the tax forms.
- Using an example depreciation schedule, identify how much to report on Schedule F for this year.
- Calculate your projected self employment tax for the year.



End of Module 1

- Congratulations!



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mail:

U.S. Department of Agriculture
Office of the Assistant Secretary for Civil Rights
1400 Independence Avenue, SW
Washington, D.C. 20250-9410; or

fax:

(833) 256-1665 or (202) 690-7442;

email:

program.intake@usda.gov.

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U.S. Department of Agriculture
Office of the Assistant Secretary for Civil Rights
1400 Independence Avenue, SW
Washington, D.C. 20250-9410; o'

fax:

(833) 256-1665 o' (202) 690-7442;

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