Recordkeeping Basics

Recordkeeping is essential for all farming operations, and an organized approach can reduce the stress of operating a business.

What are Farm Records?
It is important to keep all records related to your business. Records come in handy when looking for information and understanding where you're spending and earning money. They also:

- Provide data about your business's profitability and allow you to monitor progress over time.
- Help tell your farm's story. They aid in preparing tax returns, making financial decisions and planning for your business.
- Allow you to reference past information when developing a budget or planning for the future.

Farm records are any income or expense directly related to your operation. Some examples include:

- Paid bills
- Bank statements
- Cancelled checks
- Credit card statements
- Income tax receipts for deductions
- Invoices
- Expense receipts
- Livestock, crop and labor records
- Pay stubs
- Inventories
- Receivables
- Payables
- Loan records or settlement statements
- Financial statements (balance sheets, income statements, etc.)
- Sales receipts (with quantities)
- Contracts and sales agreements

How to Keep Farm Records
One key step to good recordkeeping is creating a Chart of Accounts, which will serve as the foundation for all of your reporting. First, you'll need to determine the level of detail you want from your records. You can use only high level categories, or you may want to include sub-categories to break down certain income, expenses, etc. Either way, you want to keep the correct chart of accounts for both required financial reporting (your tax return) and management reporting (what you need to analyze your business). If you are unsure of how to structure your Chart of Accounts, refer to the Schedule F of your tax return or contact your accountant.

Choosing how you keep your records is another important step to gain a wealth of information out of your records, but it can also be intimidating. There are many software choices, and determining the right one for you can be a challenge. The good news is that it doesn't matter what system you choose, just that you use it consistently and accurately.

Options Include:

- Software – QuickBooks, CenterPoint, Excel, etc.
- Manual/paper – farm record book, check register, notebook, ledger sheets

Choose the system that works best for you and your business, understanding some programs have more benefits than other programs. Software systems allow for customizable reports and graphs to analyze your information over a specified time period and more easily track and code income and expenses by area.
Tips for Good Farm Recordkeeping

Know what a farm-related expense is and is not.
- All items that directly pertain to the production and management of the farm are farm-related.
- Items such as electric, telephone and internet bills can be shared expenses between the farm operation and personal use. Good judgement should be used to determine the portion of these expenses that should be considered a personal allocation.
- Items that are truly personal in nature (legal expenses for a will, improvements to your personal property, etc.) are not farm-related expenses.

Track as much information about your purchases as possible.
- Save all invoices and receipts, especially for larger purchases. This gives your accountant the information needed, including purchase price and date.
- All repairs over $1,000 should be tracked with receipts/invoices. Keep these to show your accountant.
- Use your bank statements to reconcile your checkbook.
- Itemize expenses on credit card statements to make sure you don’t miss things you forgot about buying.

Keep detailed records on livestock inventory.
- Know which animals were raised on the farm and which ones were purchased and when.
- Track the age and date when animals leave the farm.
- This information is useful because purchased animals can be depreciated over time. If a purchased animal dies during that time, it can be taken as a loss.

Understand the rules of 1099 reporting.
- Services offered by any vendors (landlords for rent, custom hire, etc.) over $600 should receive a 1099 form at year end to meet proper federal and state reporting guidelines.
- Corporations you do business with do not require a 1099 form, unless they are a veterinarian or attorney.
- Vendors should complete a W-9 form for your records to ensure you have proper documentation on file of their EIN/SSN/TIN.

Keep records fresh by making sure your Chart of Accounts is accurate and tailored to your business at the beginning of each year.
Test Your Recordkeeping Knowledge!

1. Should dairy farmers report gross milk income or net milk income for taxes?
   A. Gross milk income
   B. Net milk income

2. What is the best way to keep farm records?
   A. Paper record book
   B. Excel spreadsheet
   C. QuickBooks
   D. CenterPoint
   E. Any of the above

3. If you buy a new tractor and trade in an old one, what information do you need to share with your accountant?
   A. The gross price paid for the new tractor
   B. The trade in value of the old tractor
   C. Both

4. Do most farms use the cash accounting method or accrual accounting method?
   A. Cash
   B. Accrual

5. What is not a farm-related expense and should not be included in your farm’s record books?
   A. 100% of the electric bill, even though you live in the farmhouse on the property
   B. Veterinary bill for the family dog
   C. New gutters for the farmhouse
   D. All of the above

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Answers

1. A. Gross milk income - Your accountant needs to know all expenses being deducted from your milk check as well.

2. E. Any of the above - Consistency and accuracy is key, no matter what system you use.

3. C. Both - Your accountant needs all of the information and not just the net price.

4. A. Cash - Farms typically use cash accounting. However, keeping track of inventory, prepaid expenses and other items can help a farmer using cash accounting make accrual adjustments and more informed managerial decisions on their operation.

5. D. All of the above - Items that are truly personal in nature should not be considered a farm-related expense.