

# Farm Records



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Hi, I'm Damona Doye. Extension Economist and our exciting topic in this segment is Recordkeeping! Recordkeeping is a chore, no way around it but the payoffs can be great. Sort of like exercising or eating right... It may not be the most fun but the benefits are long term. As a specialist with responsibility to help producers with records, I can help you think about what is most important to do and can point you to tools that make it easier.

Can you answer these questions?

Does the farm/ranch/business provide enough income to:

Show a profit?

Cover loan payments?

Pay family living expenses?

What could make our business more profitable? What kind of risk management strategies are appropriate to minimize costs but allow us to sleep better at night?

Are we making more on crops or livestock?

Should we buy or raise hay? Should we buy or raise replacement heifers?

Are costs of production too high?

What is the break-even crop price?

What incentives will motivate hired help to do a better job?

Can we afford to try something new?

# Records

- Why?
- Who?
- What?
- When?
- How?

Let's start with Why...

Your records are really the foundation of your whole farm/ranch information system., which serves you in forward planning, in analyzing how you are doing today in all dimensions of your work and also provides the historical perspective so that you know whether progress is being made. Records answer questions and support decisions in a variety of ways which will be the focus of the slides that follow in this introduction to records....

Who can be anyone in the family with time and interest or it may be someone outside the family that you pay to assist, perhaps an accountant or tax preparer who will also assist with tax records. thing that you pay someone else to do. Assigning it to someone who doesn't see the value or is underappreciated for the job isn't the way to get a good information system developed. If you don't have someone in the family, pay someone.

What depends on the kinds of decisions you want and need to support. The earlier list of questions are examples of things for which you need answers. You may have others related to crop or livestock production or personal finance.

When? In a well-organized operation, when will be on an ongoing basis. It isn't

a one-time annual event where you are scrambling to pull everything together. You may not sit down every day to work on records, but doing it weekly is a good idea so that your information is always up-to-date and so that it doesn't become an overwhelming task.

How is the subject of the accompanying presentation on Farm Recordkeeping tools. Let's continue with our discussion of why invest precious time in maintaining a good information system...

## Record keeping goals

- Be prepared for the unexpected
- Planning ahead
- Communications
- Business analysis
  - Be able to accurately identify shares of income and expenses
  - Determine costs of production per unit
  - Know where profit (and/or loss) centers are in the operation
- Keep what is needed for tax purposes

Here are 5 possible broad goals for recordkeeping...

Whenever opportunity knocks, you want to be ready. You may get a great, limited-time offer on a new machinery item. If you have a good understanding to your current financial position and cash flow, know the maintenance and repair history on your existing machine, understand the possible tax consequences of the purchase or trade, you are prepared to take advantage of the opportunity.

Forward planning can encompass a variety of time frames, ranging from the next month or year to retirement and beyond

Communications are one of the most critical elements in business success. Records provide factual, unbiased information that helps others understand your needs and wants.

To survive in the long run as a business, you must be profitable, perhaps not every year, but most years. Business analysis provides a clear picture of both profitability and cash flow, helping you see income and expense patterns over time and in different circumstances, for instance, drought and normal years. Analysis provides information on prices needed to breakeven and it helps you

identify strengths and weaknesses.

## Preparing for the unexpected

- Know your net worth, debt position, potential liabilities, cash reserves, cash flow and margins
- Other records:
  - Durable power of attorney
  - Will, trust
  - Medical directives
  - List of account and credit card numbers
  - Asset and liability inventories
    - Farm and household
  - Proof of ownership, coverage, warranties
  - Beneficiaries

Being prepared for the unexpected means not only being able to take advantage of opportunities but also being prepared in event of disaster. It requires knowing your financial situation but also having some basic documents in place to ensure that your wishes are carried out in the event of an accident, unexpected death or disability. Having some liquidity is important in an emergency. That means having some cash reserves or ability to borrow.

If you don't already have the legal documents listed here in place and also in a location that one or more trusted persons knows about, I highly recommend you begin the process to develop them. Unfortunately, we never know when an unexpected event might occur, preventing us from making necessary updates so it is important to keep documents current. You may not want an ex-spouse in charge of your health care or managing your accounts after you are gone. You may have personal wishes regarding end-of-life care. Minimize the stress that family members will have by being prepared at all times. And adjust as needed...

## Identity theft: deter, detect, defend

- Receive and review credit reports once per year
  - <https://www.annualcreditreport.com/cra/index.jsp>
- Review your credit card statements carefully
- Keep important records secure
  - Shred
  - Use passwords on electronic files
- Federal Trade Commission:  
<http://www.ftc.gov/>

Unfortunately, you now need to regularly monitor your accounts to ensure that your identity hasn't been stolen. Reviewing credit card statements and reports are an important step along with careful control of records and disposal of discarded items.

The Federal Trade Commission has a number of useful resources, ranging from the Do Not Call registry to links to report identity theft, get your free credit report, scam alerts and more. Take advantage of these free resources.



## Planning ahead

- Spending plan
- Retirement planning
  - Current records
  - Idea of future expenses
- Estate planning
  - Asset and liability information
  - Cost and market value

The idea of a spending plan is perhaps more palatable than a budget. Regardless of what you call it, making conscious choices about how your hard-earned dollars will be spent, either on farm or family, is a key to cost control in the long run. Your records will provide a history of spending and can suggest what is reasonable going ahead. During periods of low commodity prices, knowing how much you can cut without impacting production is important. Records may also point out categories where expenses can be reined in with limited negative repercussions.

Retirement planning is absolutely critical if you ever have plans to slow down. When you slow down, the farm's productivity may drop off a bit which impacts income earned. Having a plan for maintaining your lifestyle means saving early and saving often. The trick is how. Your records give you the foundation for understanding how health care costs have varied, how much you may want to spend on travelling and so on.

Even if your plan is to never retire, estate planning is important if you have accumulated any property and want your business to transfer as a viable entity to a family member or new beginning farmer. Knowing not only the market value but also the cost basis of your assets will be important to advisors such as accountants., lawyers and tax specialists. The better your records and the better

your understanding of what you want to achieve, the less you spend on them in billable hours!

# Communication

- Business partners
- Lenders
- Landlords
- Heirs
- Family

To be successful, clear communications with many people is important. Certainly, business partners need a transparent look at income and expenses on an ongoing basis, summarized in meaningful ways. It may be by lease or by production activity, for instance, cow-calf, wheat, alfalfa or stockers by pen.

Likewise, lenders have their own money at stake in your business and want to be informed as to whether they have invested well. If you are anticipating financial stress, which you'll know if you are current in recordkeeping and monitoring market outlook, better to talk to the lender early. They have many more options for working with you if start early to address problems.

Landlords also want to be in-the-know. If you are in a share-lease agreement, records are needed to document shared income and expenses and communication in advance when fertilizer prices have increase can help maintain good working relationships. Some landlords may want updates regularly; others may be content with a semi-annual or annual summary. Records provide the basis for discussion.

Maybe you think you shouldn't talk to heirs about your plans before you die, in case you change your mind on what you are going to do.... But, that's not a

good business practice. A transition plan is needed and again, records will inform the process. Is there sufficient income for future heirs to maintain the business? What kinds of taxes may be imposed on the estate and are there ways to minimize that while accomplishing asset transfers in an appropriate way?

Though it may seem difficult or awkward, communication with family about finances is important as well. If they are young, help them develop important life skills. If you want family members to understand the need for cost control, constraints on your ability to spend on new vehicles, for instance, share records. The better informed everyone is the more likely you are to be on the same page with respect to important decisions.

## Business analysis

- Historical analysis
- Current assessment
- Forward planning
  
- Financial performance
- Financial position

Business analysis can look at the past, present or future.

The historical perspective is useful in understanding what is “normal” or reasonable to achieve in most years. It provides insights into relative strengths and weaknesses, may suggest ways that operations can be improved

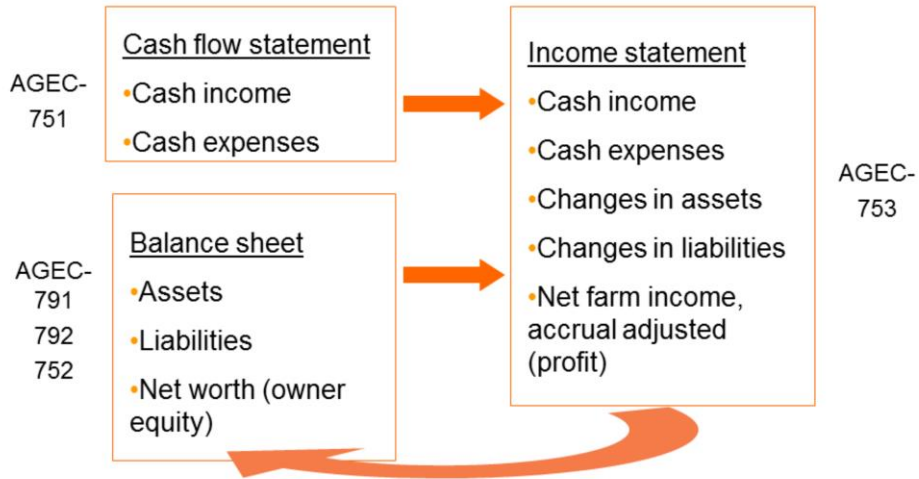
Looking at records in the present, allows you to tackle problems before they get out of hand

With a forward-looking lens, you can implement lessons learned and move toward new goals.

The bottom line: You can make better informed decisions!

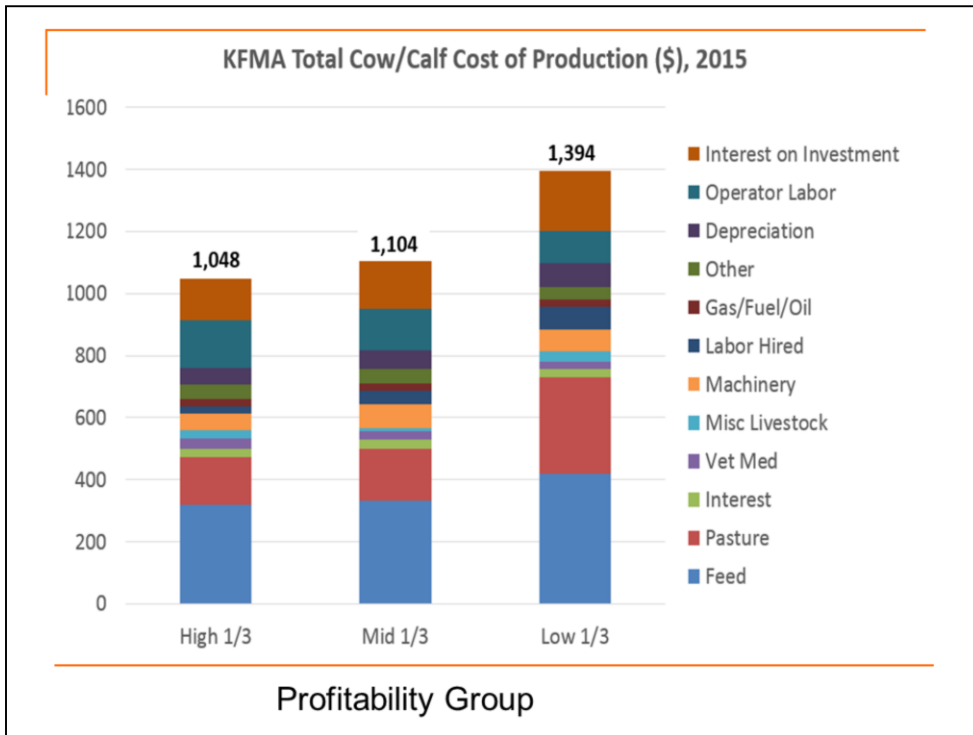
Business analysis often focuses on two dimensions: performance, with looks at things like cash flow and profitability for a period of time, and position at a point in time. Business analysis is discussed in more depth in the segments on financial statements and evaluating financial performance and position.

## Records are the foundation....



<http://pods.dasnr.okstate.edu/docushare/>

Good records are a must for developing accurate financial statements. The summaries that you do for tax purposes are very limited in the insights they provide and in fact can be very misleading. Financial statements are like the stat sheets for your favorite team in your favorite sport. They give you insights as to how well you are doing.



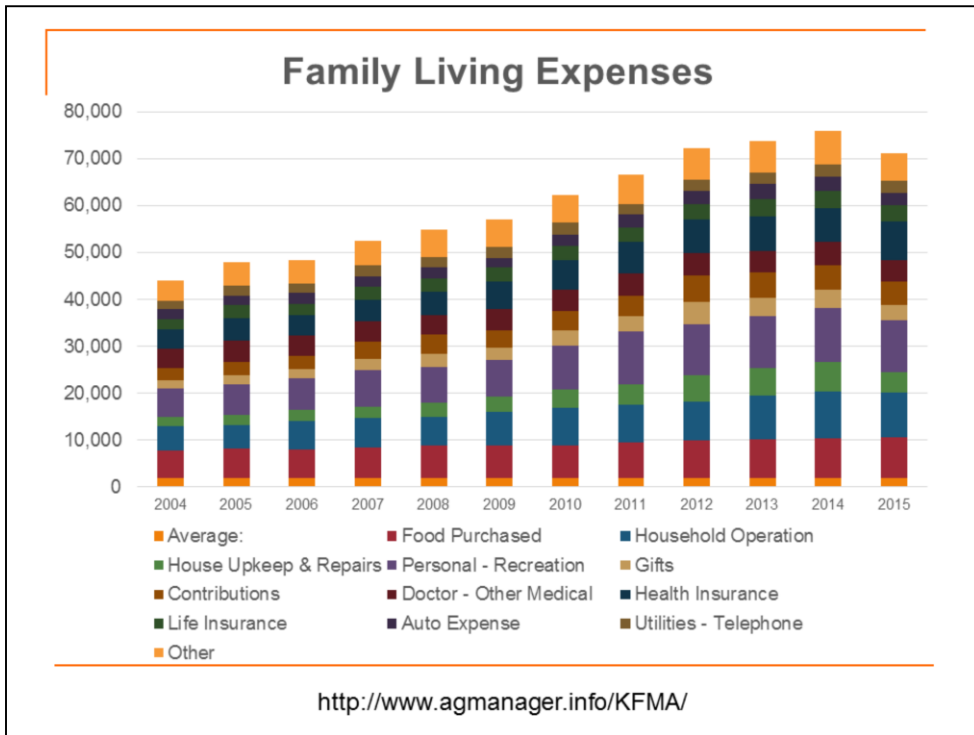
Summaries from records provide benchmarks to which you can compare. In this example, data from KFMA for cow/calf cost of production shows differences in the cost levels of the most and least profitable producers.

## Trend analysis

	2014	2015	2016
Seed	\$2,500	\$2,600	\$2,700
Fertilizer	\$10,000	\$4,000	\$4,000
Fuel	\$3,200	\$5,500	\$3,100
...			
Repairs	\$500	\$1,500	\$5,000
...			
Interest as % of total expenses	10%	12%	17%
...			
Credit line	\$45,000	\$55,000	\$95,000

Records allow you to look at trends over time and spot changing patterns. In this case two items are noteworthy. Repairs seem to be increasing at a rapid rate, which might suggest the need for a new vehicle or piece of machinery or better training or management of a hired hand if that person has frequent break-downs. And the credit line balance is increasing. If the business is in a growth phase, that may be OK. On the other hand, if it is because income generation is not keeping up with spending, something needs to change.





Farm and family finances are often intertwined. It is easy for family living to go up during high-income years, less easy to bring them down when commodity prices fall. Monitoring them gives you the information you need to develop a spending plan.

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## Records for tax purposes

- “It is easier to do a job right than to explain why you didn’t.” ... Martin van Buren
  - Cash records
    - Farm income and expenses
    - Employee payroll
    - 1099
    - Asset sales and purchases
    - Keep most items 3-7 years
  - <http://www.irs.gov/>, Publication 225, Farmer’s Tax Guide
- 

This is what I refer to as the “stay out of jail” function of records. Too often it is the main driver when in fact, it should be a byproduct of a good information system. With a bit of additional work to supplement your cash records, you have a much richer base for informing decisions.

## What do good records offer?

- Unbiased truth
- Insights into strengths/weaknesses, problem identification
- Identification of profit and loss centers
- Direction for maximizing the returns to owned resources
- Documentation to obtain/maintain credit
- Ability to compare to benchmarks

Sometimes people tell me they're not sure they want to know. Sticking your head in the sand like an ostrich does nothing to help make your business sustainable in the long run. Get real! With the size of investments that farmers/ranchers have to make today, there's no excuse for not doing a better job of business management and it starts with records.

## What do good records offer?

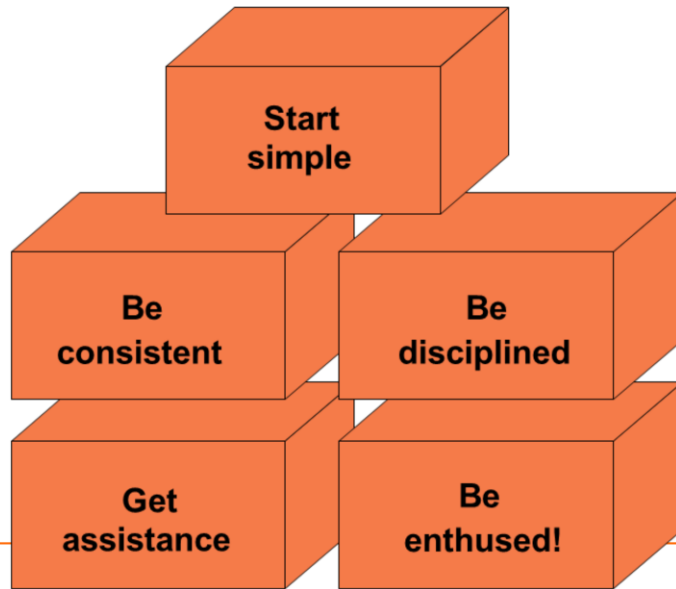
- Information regarding feasibility of new ventures
- Employee incentive measures
- Guidance on appropriate risk management strategies
  - Production risk
  - Financial risk

Can you afford to buy that piece of land near your farm? Your financial records should help you understand whether it is feasible and profitable.

What kind of incentive would help motivate your employee best to contribute to the bottom line? Would it be increasing the calf crop percentage or reducing hay waste?

Are the risks you face greater due to production uncertainty or changes in finances, such as input prices or interest rates?

## Some suggestions...



Maintain accurate records

Be consistent in how the measures are developed

Note reasons for “unusual” measures

Summarize and review measures periodically

Measure, then manage!

Ask for help if you need it

## References

- At [osufacts.okstate.edu](http://osufacts.okstate.edu):
  - From Cash Records to Cost of Production, AGEC-242
  - Quicken for Farm and Ranch Financial Records, CR-324
  - Quicken or QuickBooks: What's the Best Choice for Agricultural Producers? AGEC-266
  - Information Systems for Oklahoma Farmers, AGEC-302
  - The Oklahoma Farm Family Account Book, E-823
- [www.agecon.okstate.edu/quicken](http://www.agecon.okstate.edu/quicken)
- [www.agecon.okstate.edu/farmbook](http://www.agecon.okstate.edu/farmbook)



We encourage to you to learn more about recordkeeping by reading other OSU fact sheets and considering purchase of software. Please contact your local Extension office or area agricultural economics specialist if you would like more information or are interested in having a program on this topic in your area.