Combining Farm Records and Check Writing

Using low-cost software and the IBM compatible computer

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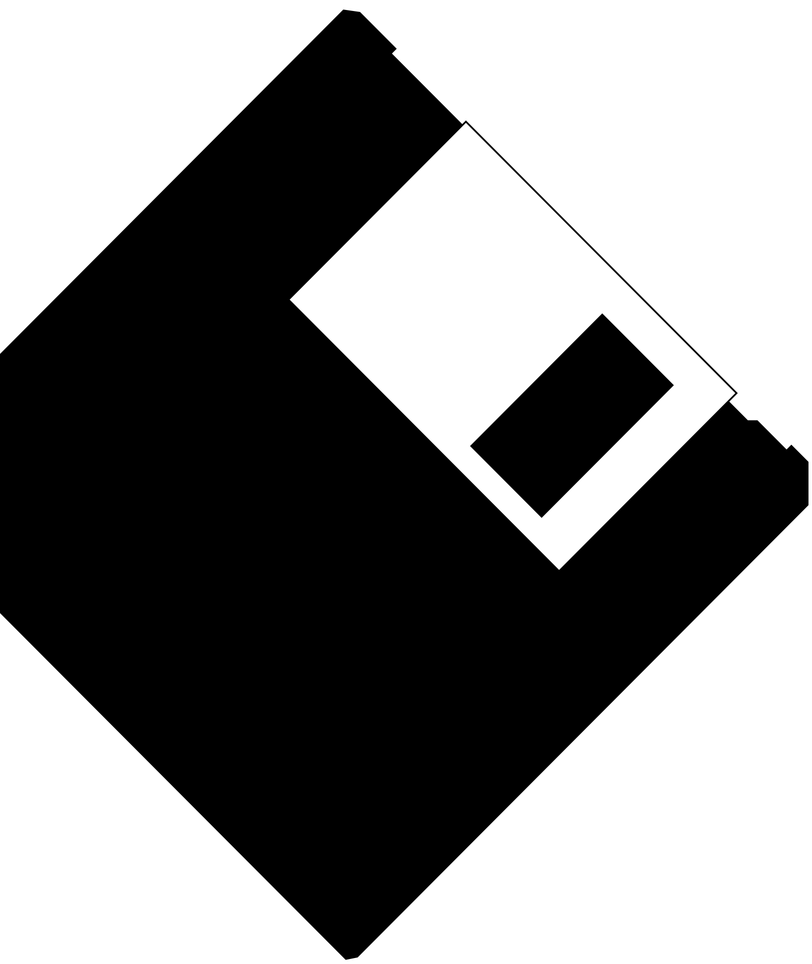

INTRODUCTION

Management of the modern farm business is a demanding activity both in terms of the time commitment and the range of skills needed. Managers are looking for ways to reduce the time used in repetitive tasks such as recordkeeping and payment of bills.

The focus of this publication is the use of low-cost computer software for keeping records and writing checks. An earlier publication provides information exclusively about farm recordkeeping for those who are primarily interested in computerized accounting applications. (See the Penn State Cooperative Extension publication *Farm records made easy: Using low-cost software and the IBM compatible computer*).

The personal computer can be a valuable tool in reducing the demands on the farm manager. This machine can provide needed management information at the touch of a button and it can greatly reduce the amount of time used for repetitive tasks such as writing business checks.

Until recently, a personal computer was beyond the reach of many farm operators. Cost of equipment was a factor but difficulty in learning how to use the machine and the rather high cost of software also were important obstacles. The past decade brought many changes. A computer suitable for most farm business applications can be purchased for less than $1,000. Computer operating systems have been improved and are now much easier to learn and more user friendly.

Excellent accounting software can now be purchased for less than $50. When modified for use in farm recordkeeping, this low-cost software becomes a valuable aid for farm accounting as well as for check writing, investment analysis, loan management, and retirement planning.

SOFTWARE ALTERNATIVES

This publication describes farm recordkeeping procedures performed with a software package named Quicken, available for both IBM compatible computers and the Apple Macintosh. Here we discuss Quicken 7.0, the version of the software used with IBM compatible machines. The principles we outline apply also to the Quicken version 3.0 used with the Apple Macintosh machine.

This discussion of Quicken does not imply endorsement of this software over other similar software. There are numerous sources of good farm accounting software. The following is a list of some farm accounting software alternatives and approximate cost as well as name and address of the supplier.

Quicken ($50 or less at discount suppliers). Intuit, P.O. Box 3014, Menlo Park, CA 94025

Pioneer Dollarwise Accounting Program ($250). Pioneer Hi-Bred International, Inc., Business Information Services, 11153 Aurora Avenue, Des Moines, Iowa 50322

PC-Mars ($350). Iowa Farm Business Accounting, 226 S.E. 16th Street, P.O. Box 1809, Ames, Iowa 50010

Horizon Accounting ($625). Harvest Computer Systems, 120 North Harrison, Alexandria, IN 46001

Transactions Plus ($995). FBS Systems, Inc., P.O. Box 248, Aledo, IL 61231

SOURCE: Duvick, Richard D., revised by Bryson R. Carter and David P. Miller. "Farm Cash Record Keeping with Quicken, Course Outline, Day 1." Ohio State University Extension, 1993

Quicken is used for Computerized Farm Recordkeeping in Pennsylvania for the following reasons.

1. The software is economically priced and readily available throughout the state of Pennsylvania.
2. It is a time-proven product, easy-to-learn, and comes with excellent documentation.
3. Quicken is extremely flexible and can be used to organize a records system as simple or as advanced as the user wishes it to be.
4. Hundreds of farm computer users already own Quicken, but may not have realized its potential to handle the unique records needs of the farm business. The Farm Check Writing Chart of Accounts included in the Appendix will help to correct that deficiency.
5. Quicken has been adopted by a number of land-grant universities as the software package to use in teaching computerized farm recordkeeping. Those adopting Quicken include the land-grant institutions represented by the Southern Farm Management Association as well as a number of midwestern institutions. That adoption results in opportunities for sharing of information and procedures developed by farm management professionals at the participating institutions.

Quicken is a registered trademark of Intuit, P.O. Box 3014, Menlo Park, CA 94026. Telephone 415-322-0573.

PART I: ORGANIZING THE SOFTWARE FOR RECORDKEEPING AND CHECK WRITING

The Quicken 7.0 software contains a generic chart of accounts. This chart of accounts is not entirely suitable for farm recordkeeping so it should be replaced with a chart of accounts designed specifically for the farm application. The Farm Check Writing Chart of Accounts developed at Penn State is one potential replacement. There are others. The software is so flexible that any user can develop his/her unique chart of accounts. But, a word of caution. *Accounting rules are very important* in design of the chart of accounts. Those who have limited training and background in accounting should proceed carefully.

The Farm Check Writing Chart of Accounts contains a number of accounts and a larger number of categories for each account. Conceptually, it is well to think of the accounts as large compartments that are used to store information. The categories are subdivisions of each compartment where individual transactions are recorded.

We begin our discussion with the process of setting up accounts and categories. It is assumed that Quicken version 7.0 has been purchased and installed on the computer hard drive and that a file has been set up and named. The accounts and categories become a part of that file. The file can be stored on the hard drive, but it may be more convenient to store the file containing the account and category information on a floppy disk. This is particularly true if one computer will be used for more than one farm record. The use of the floppy disk also facilitates maintaining back-up copies of each file on separate disks.

Quicken 7.0 permits a large or small number of accounts. The accounts needed to do good farm accounting may vary from farm to farm. Nineteen accounts are used in the Farm Check Writing Chart of Accounts. These include (in the order they appear on the computer screen) Business, Personal, Accounts Receivable, Accrual Adjustments, Capital Purchases, Current Assets, End-of-Year Inventory, Intermediate Assets, Long-term Assets, Accounts Payable, Capital Sales, Credit, Current Liabilities, Beginning Inventory, Intermediate Liabilities, Long-term Liabilities, and three Old Loan accounts. Table 1 summarizes the Farm Check Writing Chart of Accounts.

If additional accounts are needed, Quicken has a quick and easy method of setting-up new accounts. Go to the Quicken main menu and choose *Select Account*. Press *Enter* and a screen appears with the title *Select Account to Use*. An option always available is *New Account*. By selecting this option, the operator can proceed to set up the new account. Information required for each account is:

1. type of account—bank, credit card, cash
2. name for the account
3. balance in the account
4. description of the account

Table 1

Select Account to Use

Current File: THIRD in C:\CHEKWRIT
2/ 1/95

Account	Quick Key	Type	Description	Num Trans	Ending Balance	Pmts Due
A.BUSINESS		Bank	FARM OPERATING ACCT	279	17,986.48	*
A.PERSONAL		Bank	PERSONAL CHECKING	19	2,086.25	*
A.ACCT REC		Asset	ACCOUNTS RECEIVABLE	11	3,255.00	
A.ACR ADJ		Asset	ACCRUAL ADJUSTMENTS	8	-50,564.50	
A.CAP PUR		Asset	CAPITAL PURCHASES	9	437,058.00	
A.CURR ASSETS		Asset	CURRENT ASSETS	8	179,834.50	
A.EOYINV		Asset	END-OF-YEAR INVENTORY	12	318,000.00	
A.INTER ASSETS		Asset	INTERMEDIATE ASSETS	2	520,000.00	
A.L.T. ASSETS		Asset	LONG TERM ASSETS	3	4,293.00	
A.ACCT PAY		Liab	ACCOUNTS PAYABLE	12	30,618.00	
A.CAP SALES		Liab	CAPITAL SALES	8	364,575.00	
A.CREDIT		Liab	CREDIT	21	12,703.00	
A.CURR LIAB		Liab	CURRENT LIABILITIES	5	212,640.00	
A.FOYINV		Liab	BEGINNING INVENTORY	13	68,000.00	
A.INTER LIAB		Liab	INTERMED LIABILITIES	2	255,000.00	
A.L.T. LIAB		Liab	LONG TERM LIABILITY	1	3,500.00	
_OLOAN 1		Liab	OLD LOAN 1	3	75.00	
_OLOAN 2		Liab	OLD LOAN 2	5	400.00	
_OLOAN 3		Liab	OLD LOAN 3	3	78,959.50	

The Farm Check Writing Chart of Accounts found in the Appendix of this publication is the basis of the farm application of Quicken 7.0. The titles in capital letters, for example ACCOUNTS RECEIVABLE, are the accounts. Following each account in lower case, and indented, are the categories used with the account. Note that the account name ACCOUNTS RECEIVABLE includes only four categories, while the account name END-OF-YEAR INVENTORY contains four categories and twenty-three subcategories for a total of twenty-seven lines.

The Farm Check Writing Chart of Accounts can be used with a wide variety of types of farm businesses. More specialized farm operations (for example, dairy as the only enterprise) may need a customized chart of accounts to fit the specific business. This is easily accomplished by deleting all unnecessary (and unwanted) categories. If new or different categories are needed, they should be added. This process will make the resulting customized chart of accounts more compact and more easily used in recording business transactions.

This casual review of the Farm Check Writing Chart of Accounts reveals that the entire chart contains hundreds of lines. The question thus arises, how do we install the Chart of Accounts on the computer? There are two ways. The fastest and easiest way is to acquire a floppy disk containing the Farm Check Writing Chart of Accounts and, using the *Export, Import* procedure outlined on pages 324-326 of the Quicken 7.0 documentation, transfer the complete chart electronically. A disk containing the Farm Check Writing Chart of Accounts is available from the author at Penn State Farm Management, 210 Armsby Building, University Park, PA 16802.

A second, but more time consuming, way to install the Chart of Accounts is to enter each category and subcategory manually. This is done by entering the program through the main menu and first choosing *Select Account*. When the account list appears, select any account. This will bring up a register used in entering data. By pressing *CTRL* and simultaneously pressing the 'C' key, the chart of accounts appears on the screen. An option always available at the top of that screen is *New Category*. By selecting *New Category* the operator is permitted to enter information about the category he/she wishes to add.

The above procedure is necessary for each line in the Farm Check Writing Chart of Accounts. Note that many categories in the Chart of Accounts are subcategories requiring the user to assign the subcategory to a main category. Chapter 2 in the Quicken 7.0 documentation should be reviewed before beginning the process of manually installing the Chart of Accounts.

A NOTE OF CAUTION! Quicken 7.0 comes with generic chart of accounts for home and business. At the time Quicken 7.0 is installed on your computer, a screen will appear asking if you want to install the Home, Business, *or* Both Home and Business, *or* neither. If you plan to use the Farm Check Writing Chart of Accounts disk from Penn State, the appropriate response is *neither*. The Farm Check Writing Chart of Accounts should then be installed using the *Export-Import* feature of Quicken.

A final note before leaving this section. Most of the accounts and categories in the Farm Check Writing Chart of Accounts will apply to a variety of farm businesses. However, several accounts have categories used for illustration that will not be satisfactory for a particular farm. They are ACCT REC (ACCOUNTS RECEIVABLE), ACCT PAY (ACCOUNTS PAYABLE), CREDIT, and the OLD LOAN accounts. The categories in those four accounts should reflect the specific firms from which an individual farm operator may receive money or may pay money. It will be necessary to delete the existing categories from these four accounts, and add new categories that are specific to the individual farm business.

Note also that in the INC (FARM OPERATING INCOME) and EXP (FARM OPERATING EXPENSE) sections of the chart of accounts, several category descriptions include the designation 'L.n.' These numbers relate to the line numbers on the IRS Form Schedule 'F' and are there to facilitate transferring numbers from reports generated by Quicken to the Schedule 'F.' The tax filing report is discussed in Part II.

Managing the Chart of Accounts for Recordkeeping and Writing Checks

After the Farm Check Writing Chart of Accounts has been installed, Quicken 7.0 can be used for farm recordkeeping and check writing. Checks can be written only from a "bank" account. The check-writing option is not available with cash, asset, or liability accounts. Using the Farm Check Writing Chart of Accounts, writing checks is an option only when either the Business account or Personal account is open. These are the only "bank" accounts included.

When writing checks or recording noncheck transactions, it is important that each transaction is recorded in the appropriate account. Thus, the entry path for getting into a register should include selection of an account. The procedure to use in going from the main menu to the account register is:

1. From the main menu, select the option, *File Activities*. Press *Enter*.
2. From the second drop-down window, select the option *Select/Set Up File*, press *Enter*.
3. From the *Select/Set Up New File* window, select the desired file. Press *Enter*.

4. Select an account from the Account List, for example, BUSINESS. Press *Enter*.
5. Use the register to record transactions (or write checks) in the BUSINESS account.

Continue writing checks or recording noncheck transactions in the BUSINESS account until finished or until there is a reason to move to a different account.

When it is necessary to move to a different account, either of two approaches may be used. The first is to return to the main menu and proceed as previously described. The second approach, and a short-cut, is to start from a given register, for example the BUSINESS register, press *CTRL* and simultaneously press the 'A' key. This brings up a screen that includes the list of accounts. A new account can then be selected.

Regardless of the account to which a transaction is assigned, the register used for recordkeeping is very similar. In general, the register provides a place to record the date of the transaction, a reference number (i.e., check number, deposit ticket number, receipt number, or other documentation), the amount, a description of the transaction (*memo*), and assignment of the transaction to an account and category using the chart of accounts.

Check-writing procedure is similar in principal to recording other transactions except a check is substituted for the register—that is, the facsimile of a blank check appears on the screen rather than the account register. Once the check information is entered (date, payee, amount, memo), the check transaction is categorized exactly as a transaction recorded in an account register. Thus, the check is a document for transfer of funds and also is a record of how funds were spent.

To write a check, begin with the Business account register open and press *CTRL* and the 'W' key. A facsimile of a blank check appears on the screen. The current date will appear in the date field of the check. If this is not correct, use the cursor arrows to move to the date field and change the date as necessary. Type the name of the payee on the *Pay to the order of* line, and to the right of the dollar sign type the exact numerical amount of payment. The computer provides the description of the amount. If wanted, type in the name and address of the payee in the *Address* section.

In both check writing and noncheck recordkeeping, it is necessary to assign the transaction to an account and a category. This can be accomplished in two ways:

1. by typing the name of the account and category.
2. by using the chart of accounts that was previously installed.

The first approach is time consuming and will result in error unless the account and category name are entered in exactly the same way each time. The second approach is much preferred, particularly when using an extensive chart of accounts like the Farm Check Writing Chart of Accounts.

To assign a transaction to an account and category using the installed chart of accounts, first make all entries on the blank check facsimile except the category entry (designated *Category* on the register). Position the cursor at the point where the category would be entered, but instead of typing in the account and category, press *CTRL* and simultaneously press the 'C' key. The Farm Check Writing Chart of Accounts will appear on the screen.

Now use the scroll arrows on the keyboard to move up or down the chart of accounts until the appropriate account and category are highlighted on the screen. Press the *Enter* key. The selected account and category will automatically transfer to the *Category* section of the register. Press *Enter* again and a small window offering the choices of *Record Transaction* and *Do Not Record* appears on the screen. Choose the appropriate one, usually *Record Transaction*, press *Enter* a third time to record the entire transaction, including the appropriate account and category.

The description of this procedure is rather lengthy, but once accustomed to the process an operator can record a transaction in a few seconds.

Brief remarks about making entries in each of the nineteen accounts are offered in the following paragraphs.

Business Account

The Business account is the most frequently used account in maintaining farm records and writing checks. This account will be accessed often because sales produce income and expenses require payment of bills on almost a daily basis. In practice, the account will probably be updated weekly or monthly.

The register used in recording transactions for the business account is essentially a check register. Typically, data are not entered directly in the register but are entered on the facsimile of a blank check which appears on the screen after executing the "Write Checks" command. Included on the register are sections for recording the date, a reference number section (*Num*), name of the payee, sections to report dollar amount of payment or deposit, a place to enter a memo relating what was purchased or sold, and the category to which the transaction is assigned. The dollar entries may reflect an outflow (*Payment)* or an inflow (*Deposit)*.

Nearly 100 categories are included in the income and expense sections of the chart of accounts. For efficiency in recording transactions among this large group, it is essential to employ the Farm

Check Writing Chart of Accounts with the *CTRL* and 'C' key procedure previously described. This will reduce the time for recording transactions and increase accuracy in placing transactions into the correct category.

Note that both the farm operating income and farm operating expense sections of the Farm Check Writing Chart of Accounts contain numerous subcategories and secondary subcategories. This detail is needed to accurately record what happens in the farm business. In the Resale category of the farm operating income section for example, it is necessary to relate the amount received for a particular group or lot to the original purchase price of that group or lot. To illustrate this, assume 15 cattle with an original cost of $6,200, purchased for feeding and resale, are sold one year later for $13,500.

The $13,500 received would be recorded in the Resale category, and categorized as Resale: $Received. The $6,200 original cost of this group of cattle would be recorded as Resale:Cost Tax Adj. It is necessary to relate the purchase price of the 15 cattle to this specific sale because the cost is deductible for income tax purposes only in the year of sale of the cattle. Thus, a secondary subcategory is used to enter the original purchase cost of the 15 cattle. To accomplish this, the purchase transaction is categorized as Resale:Cost Tax Adj. Note the latter entry is one where the payment section of the register is used.

Several expense categories are divided into subcategories to facilitate easier interpretation of payment data. For example, the category Feed has subcategories for Beef, Dairy, Hog, and Other. The Dairy category is further divided into Calf, Milk, and Other. These divisions permit the manager, with a glance at a summary report, to determine the feed expense for each of the various groups of animals. Other categories in the account are similarly subdivided to make the information easier to interpret.

The largest category in the farm operating income section is the Rsd for Sale (Raised for Sale) category. More than twenty subcategories are included to provide the detail needed. Some of these subcategories may be unnecessary for a specific farm and can be deleted. In other cases, it may be necessary to add subcategories that more accurately reflect the products produced on a particular farm.

Note that some categories and subcategories include 'L.n.' in the description. These are line numbers keyed to the IRS Form Schedule 'F.' When a year-end report is generated, the summary line on the report will indicate to which line on Schedule 'F' the total value should be transferred.

Account transfers—an integral part of farm records and check writing

Good business practice requires that business and personal transactions are maintained separately. This means that farm operators need two bank accounts—one for business transactions and one for personal financial transactions. This practice has numerous advantages—a most important one being that personal expenses are less likely to be included among business deductions. This becomes relevant during an income tax audit when the revenue agent must establish whether all deductions claimed are legitimate business deductions.

The Farm Check Writing Chart of Accounts provides for the separation of business and personal financial affairs. The BUSINESS account is a bank account used for business financial transactions. The PERSONAL account is also a bank account and is designed to support personal financial affairs. Business checks are written from the BUSINESS account while personal checks are written from the PERSONAL account. Most banks will gladly provide both business and personal accounts and are efficient at maintaining transactions and balances separately for the business and the household.

The BUSINESS account is the center of the combined check-writing function/record system for the business because all receipts must eventually enter this account and all business payments are made from this account. This central function is facilitated by account transfers between the BUSINESS account and the CAPITAL PURCHASES, CAPITAL SALES, CREDIT, and OLD LOAN accounts. Some examples will illustrate the use of account transfers.

If money is borrowed during the current period, it is first entered in the CREDIT account. When the transaction is categorized in the CREDIT account, the category selected is the BUSINESS transfer account—in the chart of accounts the transfer account appears as [A.BUSINESS]. Use of this transfer account causes the amount to appear in the BUSINESS account as a transfer from the CREDIT account. The borrowed funds can then be used for payments by writing checks from the BUSINESS account.

When purchases of capital assets occur (machinery, breeding livestock, land), payment is made with a check written in the BUSINESS account. When the transaction is categorized, the category selected is the CAPITAL PURCHASES transfer account which appears as [A.CAP PUR] in the chart of accounts. This procedure facilitates payment by check but also maintains a record in the CAPITAL PURCHASES account.

When sales of capital assets occur (cull breeding animals, machinery), the transaction is recorded in the CAPITAL SALES account with a transfer to the BUSINESS account. When categorizing the transaction, the transfer category [A.BUSINESS] is used. This results in a record of sales in the CAPITAL SALES account but the funds are made available in the BUSINESS account and checks can then be written to disseminate those funds.

Resale items—special treatment for a special case

Farm operators frequently purchase items that are held for resale. The most common examples are livestock purchased and grazed (cattle) or fed for slaughter (hogs) although other property such as seed and farm supplies are sometimes involved. The property is resold, often in a different tax year. This produces a special challenge for the farm accountant.

Cost of items purchased for resale should appear in the listing of farm transactions for cash flow purposes, but the cost is not deductible for tax purposes when the purchase and resale occur in different tax years. The Internal Revenue Code treats items purchased for resale as *inventory* and the purchase cost is deductible only in the year of sale.

Two types of adjustment are required in the farm record system to conform to IRS rules. If the purchase and sale occur in different years, the first adjustment is made in the year of purchase. In that year, *after all reports except the income tax report have been generated*, the cost of items purchased for resale must be added back. This assumes the purchase was previously included in expense by writing a check from the BUSINESS account.

The add-back is accomplished by entering a transaction in the BUSINESS account. The transaction has the date 12/31/9X. Enter the notation "Resale Tax Adjustment" in the *Payee* section. The amount is entered in the *Deposit* section of the register to offset the cost previously entered as a *Payment* transaction. The Farm Check Writing Chart of Accounts is used to categorize the transaction using the category EXP:Resale Cost:Add Back Cost.

As an example of the transaction above, assume cattle are purchased in August at a cost of $6,178.88. Payment is by check written from the BUSINESS account. Assume the cattle are being fed for slaughter and are still on the farm at the end of the year. Cost of the cattle must be added back since the amount is not deductible for income tax purposes. Enter a transaction in the BUSINESS account with the date 12/31/9X. In the *Payee* section enter "Resale Tax Adjustment." In the *Deposit* section, enter $6,178.88. In the *Memo* section, enter "Cattle purchased 8/01/9X." The transaction is categorized EXP:Resale Cost:Add Back Cost.

The second adjustment related to items purchased for resale is necessary in the year of sale of the property, again assuming the original purchase and sale occur in different tax years. The cost of resale items is deductible in the year of sale. Thus a transaction must be entered to deduct the cost of the items in the year of resale. This second adjustment is made at the end of the year in which resale property is sold and after all reports except the income tax report have been generated.

Assume the cattle in the example above are ultimately sold for $13,500 on June 2, 199X. Two transactions must be entered in the BUSINESS account register. A transaction reporting the amount received is entered for the month of June. This transaction is entered the same way as any other sale transaction.

A second transaction is entered to report cost of the cattle, which is a deductible cost in the year of sale. The second transaction has the date 12/31/9X and the *Payee* is "Resale Tax Adjustment." The original cost of the cattle, $6,178.88, is entered in the *Payment* section of the register. The transaction is categorized as INC:Resale:Cost Tax Adj.

The effect of the two transactions is to report gross income from the sale of the cattle as well as the original cost, which is a deductible business expense in the current tax year.

Accounts Receivable

This account is used to maintain a record of what other individuals and firms owe a particular business. Some illustrative categories have been included in the Farm Check Writing Chart of Accounts. However, these categories should be deleted and new categories added that are specific to your particular business.

The ACCOUNTS RECEIVABLE account serves at least two purposes in a farm recordkeeping system. First, it is used to indicate the amounts that others owe to your business. Second, by comparing first-of-year and end-of-year accounts receivable, you can determine the change in accounts receivable that becomes a part of the ACCRUAL ADJUSTMENTS Account.

Transactions are entered in a straight-forward fashion. Enter all transactions with a firm using exactly the same name; Valley Elevator, for instance. A sale producing an account receivable is entered as an *Increase* amount in the register because it increases accounts receivable.

When payment is received, two transactions are required to fully describe the payment. First, the amount received is entered as a *Decrease* in the Accounts Receivable register with the *Memo* "Payment Received." The transaction is categorized using a category previously set up in the Accounts Receivable section of the Chart of Accounts. For example, a payment received from Valley Elevator is categorized as ACCT REC:AR 3:V.Elev. This reduces the balance in the ACCOUNTS RECEIVABLE account by the amount of the payment.

Second, the funds received must be entered in the BUSINESS account. This is accomplished by entering a transaction in the BUSINESS account register indicating the date, the document number (deposit ticket number), the source of the funds, the amount received as a *Deposit*, a memo describing the transaction, and a category depending on the item sold. For example, if the transaction involved payment received for corn grain, the category is INC:Rsd to Sell:Grain:Corn.

The two transaction described above provide a correct balance for each account in the ACCOUNTS RECEIVABLE account and also maintains a correct record of cash flow in the BUSINESS account.

Accrual Adjustments

The ACCRUAL ADJUSTMENTS account is used to produce an accrual basis income statement. It includes seven categories that reflect information from other accounts. For example, the category Accounts Payable Change is the result of comparing first-of-year accounts payable and end-of-year accounts payable—amounts which can be determined by review of the Accounts Payable account for the year. The value for Accounts Payable Change may be either positive or negative.

The categories Accounts Receivable Change and Inventory Change are used similarly to Accounts Payable Change. The Depreciation category is slightly different. It is used as a storage location for the total depreciation computed from the depreciation schedule. If tax basis depreciation is used, the amount in the Depreciation category will be identical to the amount of depreciation reported on IRS Form 4562 for the farm business.

In recording transactions in the Accrual Adjustments register, treat negative amounts as a *Decrease* amount and positive amounts as an *Increase* amount; that is, consider the transaction in terms of the impact on business earnings. For example, if the amount for the category Accounts Payable Change reflects an increase in accounts payable of $995, which is a negative amount in terms of the effect on earnings, the $995 is entered as a *Decrease* quantity. Alternatively, if the amount reflects a decrease in accounts payable, the impact on business earnings is positive and it would be entered as an *Increase* in the register.

Considering the other categories, the following have a positive influence on business earnings and thus would be entered as *Increase* items: an increase in Accounts Receivable, an increase in Feed Inventory, a larger Livestock Inventory, and an increase in the Inventory of Supplies. Items having a negative influence on business earnings and thus entered as *Decrease* items: a decrease in Accounts Receivable, a decrease in Feed Inventory, a smaller Livestock Inventory, and a smaller Inventory of Supplies. Depreciation is a *Decrease* item because it is always treated as a charge against business earnings.

Capital Purchases

The Capital Purchases account is used to record acquisitions of new capital items. Transactions recorded in this account must be maintained separately from other expenditures because of the differing income tax treatment of capital items.

Capital items are those items used in the production process of the business, but not consumed during a particular year. Examples include machinery and equipment, breeding livestock, buildings, and land. This type property differs from purchases of items such as fertilizer, chemicals, and fuel that are consumed during the current production period.

Outlays for capital purchases usually involve payment by check so the transaction will initially be recorded in the BUSINESS account. The entries in the BUSINESS register will include the date, the payee, the amount of payment, and a memo providing a brief description of the acquisition. The transaction is categorized as a transfer to the CAPITAL PURCHASES transfer account; that is, the category is [A.CAP PUR]. This results in the record showing the flow of funds out of the business checking account and provides a record in the CAPITAL PURCHASES account of new capital assets.

Current, Intermediate, and Long-term Assets

These three accounts are discussed as a group because the procedures for using them are the same. When used to record assets, the register for each of the accounts is identical. Categories are different because of variation in the assets that compose the current, intermediate, and long-term groups.

The asset accounts are used in conjunction with the liability accounts in storing information used in generating the balance sheet. The accounts will be active (updated) only when a balance sheet is needed, usually at the beginning or end of a year. However, a midyear balance sheet may be required and, in some cases, at more frequent intervals such as at the end of each quarter. Also, lenders usually request a current balance sheet at the time a loan application is completed.

Current assets are those items that are readily convertible to cash or are in fact cash. Intermediate assets are items used in the business for the production of income, such as breeding livestock or machinery. Long-term assets are the fixed capital of the business, such as land and buildings.

In recording transactions in the register for the assets accounts, all entries are treated as *Increase* items, thus adding value or increasing total assets. Usually, the register will not have an entry in the *Ref* (reference) section. The *Payee* section will simply have the entry CA, IA, or LTA for current, intermediate, and long-term assets. The appropriate dollar value is included in the *Increase* section. The *memo* section is used to provide a description of the asset being entered. The *Cat* (Category) section can be provided by the Farm Check Writing Chart of Accounts, using *CTRL* and the 'C' key to bring the chart of accounts to the screen and to select the appropriate category.

The categories in the assets accounts are those reflecting the typical collection of current, intermediate, and long-term assets on farms. Review the categories list and make additions if necessary.

End-of-Year and First-of-Year Inventory

These two accounts are essential to arrive at a realistic picture of business earnings. A first-of-year inventory should be completed on the first day of the business year. The end-of-year inventory should be completed on the last day of the business year. The goal is to establish value of inventory items as of the first day and last day of the year. Change in value of inventory, along with operating income and expenses, are necessary components in determining true annual earnings for a business.

End-of-year inventory is treated as a credit (positive sign) to the business while first-of-year inventory is treated as a charge (negative sign) against the business. Beginning inventory acquires a negative value because the account is a liability account. In contrast, end-of-year inventory acquires a positive sign since that account is an asset account.

The registers for both inventory accounts include an *Increase* section and a *Decrease* section, with the order of these reversed. The End-of-Year Inventory (an asset account) has the decrease section of the register to the left of the increase section. The opposite is true for the beginning inventory account (a liability account)—the *Increase* section of the register is on the left. The differing type of account has an influence on how transactions are recorded even though transactions are recorded as *Increase* transactions in both accounts.

When recording both beginning inventory and end-of-year inventory, enter the appropriate date; 1/1/9X for beginning inventory and 12/31/9X for end-of-year inventory. Typically, there will be no entry in the *Ref* section. In the *Payee* section enter the abbreviation EOY or FOY depending upon whether the first or end of year. Enter the dollar value as an *increase*, regardless whether beginning or ending. Details about the transaction should be provided in the *Memo* section. For example, if recording value of breeding cattle, the *Memo* entry might be "75 head mature cows."

At the end of the year, first-of-year inventory is compared to end-of-year inventory to arrive at the impact of inventory change on business earnings. Thus, by comparing the positive valued end-of-year inventory to the negative valued first-of-year inventory, one can determine the net impact on earnings. If inventory increases during the year, a larger positive end-of-year amount is compared to a smaller negative first-of-year amount and a positive change in inventory is established. Alternatively, if inventory decreases during the year, the positive end-of-year amount is smaller than the negative first-of-year amount, and a decrease in inventory for the year is found. The latter produces a negative effect on business earnings.

Note from the Farm Check Writing Chart of Accounts that the End-of-Year Inventory account is divided into the major categories of Feed, Fuel-Lubs, Livestock, and Supplies. The same categories are found in the First-of-Year Inventory account. There are a number of subcategories for each of the major categories. The major categories facilitate comparison of first-of-year and end-of-year inventories. At the end of each year, comparison of the amounts at the first and the end of the year provide the input data for the Accrual Adjustments Account. The four inventory change figures plus depreciation and change in accounts payable and accounts receivable compose the total entries in the Accrual Adjustments Account.

Accounts Payable

The Accounts Payable account is used to maintain a record of unsecured business debt owed to others. This account is important because it can provide an early warning of financial problems in the business. One of the earliest indicators of insufficient cash flow and low earnings is a gradual increase in accounts payable.

The Accounts Payable register includes an *Increase* section and a *Decrease* section. Transactions that increase accounts payable are entered in the *Increase* section of the register.

When a payment is made, two transactions are required. First, the amount paid is entered as a *Decrease* in the Accounts Payable register with the *Memo* "Paid on Account." The transaction is categorized using a category previously set up in the Accounts Payable section of the Chart of Accounts. For example, a payment made to Valley Feed is categorized as ACCT PAY:AP 1:V. Feed. This reduces the balance in the ACCOUNTS PAYABLE account by the amount of the payment.

Second, the payment must be entered in the BUSINESS account. This is accomplished by writing a check from the BUSINESS account, providing a memo describing the transaction, and selecting a category for the purchased item. For example, if the transaction involves a payment for milk ration (dairy feed), the category is EXP:Feed:Dairy:Milk.

The two entries described above provide a correct balance for each account in the ACCOUNTS PAYABLE account and also maintain a correct record of cash flow in the BUSINESS account.

The categories for the Accounts Payable account, as with the Accounts Receivable account, must be unique to a specific farm. The Farm Check Writing Chart of Accounts in the Appendix includes some illustrative categories but these will not be satisfactory for a particular farm. Thus, the illustrative categories are deleted and categories are added that reflect the firms with whom the specific farm does business on a continuing basis.

Capital Sales

The Capital Sales account is used to record sales of property used in the business. Breeding livestock, machinery, land, and buildings are examples. The major categories for the Capital Sales account are Livestock, Machinery, and Other. Note the subcategories and secondary subcategories. Under the subcategory for Livestock (*Lvstk*) are secondary subcategories for Purchased Beef Cattle, Purchased Dairy Cattle, Purchased Hogs, Raised Beef Cattle, Raised Dairy Cattle, and Raised Hogs. These distinctions are important because of the differing tax treatment of purchased and raised breeding livestock.

Why should a separate listing of sales of capital items be maintained?

There are a number of reasons, not the least of which is federal income tax. The tax treatment of sales of property used in the business is entirely different than sales of items produced or raised for sale. Property used in the business is not subject to self-employment tax. Items raised or produced for sale are subject to that tax. The difference is a savings of 15.3 percent.

Capital sales always result in income to the business so the amounts involved are recorded in the register as *Increase* items. An account transfer is used to record transactions. For example, if cull dairy cows are sold, the sale is recorded as an increase in the CAPITAL SALES account with an account transfer to the BUSINESS account. The transfer category [A.BUSINESS] is used. This results in receipts from the sale flowing into the BUSINESS account for subsequent distribution by check. It also provides a listing of individual sales and total receipts in the CAPITAL SALES account

Credit

The Credit account is designed to maintain a record of credit used in the business. The procedure suggested for data entry in this account differs slightly depending upon whether we are working with a "new loan" (one received during the current year) or an "old loan" (one received during a prior year).

New loans

In recording transactions, new loans are treated as income and recorded as *Increase* items in the Credit register with an account transfer to the BUSINESS account. This moves funds to the BUSINESS account where checks may then be written to utilize the borrowed money. Payments on principal are recorded in the BUSINESS account as a *Payment* and an account transfer is used to transfer the amount to the CREDIT account.

The effect of the above procedure is to transfer the funds to the account from which checks are written while also maintaining a listing and running balance of borrowed funds. Interest is recorded in the BUSINESS account—not in the CREDIT account.

A category for each loan is included in the Credit section of the Farm Check Writing Chart of Accounts. For example, if loans were received from Farm Credit for a farrowing building, from First National Bank for a haybine, and from Valley Bank for a spreader, three categories would be established in the Credit section of the chart of accounts. These categories might be identified as Loan 1 (Farm Credit), Loan 2 (First National Bank), and Loan 3 (Valley Bank).

When proceeds of a loan are received, the CREDIT account register is used to record the transaction. Enter the date the transaction occurred, the deposit ticket number related to deposit of the funds received, the name of the lender, the amount received (in the *Increase* section), the memo Loan 1 (or 2 or whatever) balance in the memo section, and categorize the transaction as a transfer to the BUSINESS account; that is, the category used is [A.BUSINESS].

A similar procedure is used to record payment on principal, except the transaction occurs in the BUSINESS account. A check is written to the firm to which repayment is made. The payment is a transfer to the CREDIT Account, thus the category used is [A.CREDIT].

A new loan typically results in a check being issued to the borrower by the lender. This check is deposited in the borrower's bank account and the borrower subsequently issues his/her check in payment for the item for which the loan was secured. But in some cases, the lender will issue a check to the dealer or supplier directly, rather than to the borrower.

When direct payment by the lender to a supplier occurs, it is necessary to adjust the procedure for recording the transaction. Record the new loan as a deposit in the CREDIT account, exactly as if the loan proceeds had been received in the form of a check. However, in the Re*f* section of the register, enter "Direc" rather than the bank deposit ticket number that is typically entered.

For example, assume a loan is acquired to purchase a new item of farm equipment. Enter the loan proceeds in the CREDIT account with a transfer to the BUSINESS account. Then enter a transaction in the BUSINESS account register (do not write a check) that records the farm equipment purchase, which is a capital asset. In the N*um* section of the register, enter "Direc" rather than a check number. When the transaction recording purchase of the farm equipment is categorized, the category selected is a transfer account—in this case, the transfer is to the CAPITAL PURCHASES account. Consequently, the appropriate transfer account for the transaction is [A.CAP PUR].

Interest payment is not recorded in the Credit account because interest is a part of farm operating expense.

Old loans

Maintaining a record of old loans involves some variation in procedure. The original loan balance is recorded as an *Increase* in the OLD LOAN account register on January 1. When payments on principal are made, *we write a check from the* BUSINESS *account and use an account transfer from that account to the* OLD LOAN *account*. This transfer is necessary to maintain an accurate record of cash flow in the BUSINESS account and a record of payments and balances in the OLD LOAN account.

The balance on each old loan should be entered on January 1 of each record year. The balance is entered as an I*ncrease* in the Old Loan register. Principal payments (but not interest) are recorded in the BUSINESS account as a Payment with a transfer to the OLD LOAN account (reducing the absolute size of the old loan balance). Thus, a principal payment recorded as a Payment in the BUSINESS account becomes a *Decrease* in the OLD LOAN account register. The result of this procedure produces an accurate running balance in the OLD LOAN account as well as an accurate measure of cash flow in the BUSINESS account.

For example, assume we have an old loan in the amount of $1,000 on which a principal payment of $75 is made on January 10. We enter the loan balance on January 1 in the I*ncrease* section of the OLD LOAN account register. In addition to the date, we enter the name of the lender (in the Payee section of the register), $1,000 in the *Increase* section, the memo 'Loan Balance' in the memo section, and categorize the transaction as _OLOAN 1.

When the principal payment is made on January 10, a check for $75 is written from the BUSINESS account. The name of the lender is entered in the Payee section and the $75 amount is entered in the Payment section. The memo "Principal Payment" is entered and the transaction is categorized as [_OLOAN 1]. The bracketed account name indicates the transaction is a transfer to the OLD LOAN account.

Following the above two transaction entries, the OLOAN 1 account balance will be $925 and the BUSINESS account will include a payment transaction reflecting a transfer to the OLOAN 1 account in the amount of $75.

Split transactions—recording both principal and interest

The above discussion and example does not include consideration of interest payment. Interest is a currently deductible farm business operating expense and must be handled in a different way. The payment of interest can be entered as a separate transaction in the BUSINESS account and categorized as EXP:Int:Mort or EXP:Int:Other, depending on the type of loan, or it can be handled along with principal as a single transaction but using the Split procedure available in Quicken 7.0.

If the combination of interest and principal are recorded as part of one transaction, the original entry is made in the BUSINESS account register. The procedure is the same as described above to the point where the Memo and the category assignments are made. The *Memo* is Loan Payment. When ready to categorize the transaction, a Split transaction will be used so press *Ctrl* simultaneously with the 'S' key. This brings a window to the screen that is used in recording a Split transaction. (To review entering Split transactions, the reader may wish to again read pages 28-32 of the Quicken 7.0 documentation).

The split transaction window includes the sections C*ategory*, *Memo*, and *Amount*. The amount previously entered as a loan payment appears in the *Amount* section. In making the split, enter in the *Category* section the category to be used for the principal share of the loan payment. (For example, [_OLOAN 1]—note this is a transfer to the OLD LOAN account). Include the memo "Principal" and the amount of the total payment that is principal.

The share representing payment of principal replaces the amount originally appearing in the A*mount* section. In addition, the original amount is reduced by the principal share of the total and the balance appears on line 2. Press *Enter* and the cursor moves to the line 2 in the Split window. On this line, enter the category for interest (perhaps EXP:Int:Other, this is NOT a transfer. It remains in the BUSINESS account.) and has the memo, Interest. Move the cursor to the *Amount* section, simultaneously press *Ctrl* and *Enter* and the Split transaction is recorded.

A concluding note. The CREDIT AND OLD LOAN accounts, similar to the ACCOUNTS PAYABLE and ACCOUNTS RECEIVABLE accounts, should be designed for your specific farm. It will be necessary to delete the illustrative subcategories used as examples and substitute the names of the specific banks or other lenders that provide financial services to your farm business.

Current, Intermediate, and Long-term Liabilities

These three accounts are discussed as a group since the procedure for their use is identical and the register for each of the accounts is the same. Categories are different because of variation in the liabilities that compose the current, intermediate, and long-term groups.

Current liabilities are those obligations that are due within one year. Examples are notes, accounts and accumulated interest. Intermediate liabilities are obligations due within five years and most often related to property used in the business, such as machinery or breeding livestock. Long-term liabilities are typically related to a mortgage, such as an indebtedness for land or buildings.

The liabilities accounts, together with the asset accounts, are the source of information used in generating the balance sheet.

When recording transactions in the register for the liability accounts, all entries are treated as I*ncrease* items, thus increasing total liabilities. Usually, the register will not have an entry in the *Ref* (reference) section. The *Payee* section will include the entry CL, IL, or LTL for current, intermediate, and long-term liabilities. The appropriate dollar value is included in the *Increase* section, thus increasing the total liabilities balance. The *memo* section is used to provide a description of the liability being entered. The *Cat* (Category) section can be provided by the Farm Check Writing Chart of Accounts by pressing *CTRL* and the 'C' key to bring the chart of accounts to the screen and then selecting the appropriate category.

The categories in the liabilities accounts are those reflecting the typical collection of current, intermediate, and long-term liabilities on farms. Review the list and make deletions and additions as necessary.

PART II: OBTAINING BUSINESS REPORTS FROM QUICKEN 7.0

Most of the work is finished when transaction, inventory, asset, and liability information has been recorded. All that remains is to generate the many useful reports that are available from the stored data. Quicken generates these reports by summary of the data in a number of formats.

To acquire an overview of the process of generating reports, carefully read chapters 12 and 13 in the Quicken 7.0 documentation. Those chapters describe the large variety of reports available and provide directions for generating the report that will best meet specific needs.

The reports that one may want to generate include a Transactions Listing, Cash Flow, a Profit and Loss (P&L) statement, a Credit report, a report of Accounts Payable/Receivable, and various summary reports for quarter-years, half-years, and the whole-year period. Also, it may be desirable to generate whole-farm budgets, an income tax management summary, and other types of reports.

Transaction Listing Report

Immediately after entering transactions for any period (week, month), a hard copy of the data should be printed. This is an excellent way to check for data entry accuracy (and this accuracy check should be completed). It also is a way to preserve data in case of computer malfunction or a defective disk. Always follow the usual rules for back-up of data, but also generate a hard copy of all information immediately after entering transactions. This is the raw material from which the entire year's records can be rebuilt in the worst-case scenario.

In addition to generating a hard copy of data as suggested above, it is well to copy the data disk from time to time (perhaps monthly, at minimum quarterly) and store the copy in a safe location separate from the storage location of the original data disk. While this may appear to be overkill, it will be invaluable in reconstructing business information in the event of a natural disaster or fire that destroys the original data.

To generate the Transaction Listing, starting with any register displayed on the computer screen, press the Al*t* key and the 'R' key to access the *Reports* options. A small screen appears with a number of report options. Select *Other Reports* and press *Enter*. When a second drop-down window appears, select *Transaction*, press *Enter*, and a *Create Transaction Report* screen appears. Enter the report title preferred, perhaps Transaction Listing. Next, indicate the range of dates from which to include transactions. If for the month of January, for example, enter the dates 1/01/9X through 1/31/9X. For a quarter, enter the beginning and ending dates for the quarter. For a year, enter the beginning and ending dates for the entire year.

The next step is to choose additional options for the Transactions Listing report. This is accomplished by pressing the 'F8' key and a R*eport Options* screen appears. At the *Report Organization* option, the choices are *Income and Expense* or *Cash Flow Basis*. Choose *Cash Flow Basis*. At the *Transfers* option, choose *include all* which is option 1. At the *Memo/Category display* option, choose *Memo only* which is option 1. Press the *Enter* key twice and the computer goes back to the *Create Transactions Report* screen.

Now, back at the original *Create Transactions Report* screen, indicate how the data will be subtotaled. Twelve options are available but for a transactions listing, choose *Don't Subtotal*.

A number of *Sort* options are available within the *Subtotal* option. For a transaction listing, choose to sort by date. In some cases, the recordkeeper may choose to sort by Account, Payee, Category, or another of the six available options.

The next step is to indicate which accounts are to be included in the report being generated. The choices are C*urrent*, *All*, and *Selected*. The report should include all transactions data for the period 1/1/9X through 1/31/94, but not data related to the balance sheet or inventory. Type 'S' to indicate *Selected* accounts. Press *Enter* and a listing of all accounts appears on the screen. Use the cursor arrows to move up and down the screen. Include or exclude accounts by highlighting each and then pressing the space bar. For a listing of business transactions, only the BUSINESS account needs to be selected. The BUSINESS account includes a record of all transactions because of account transfers to and from this account.

When the desired account is included and all others excluded, press E*nter* and the Transaction Listing report will momentarily appear on the screen. Figure 1 is a copy of the report that is generated.

In reviewing this report, remember the Transaction Listing report is not intended to provide an indication of earnings. The Transaction Listing Report's o*nly* purpose is to provide a listing of the data in the computer. Other reports (yet to be generated) will indicate cash flow, business earnings, and additional items of interest to us in measuring the financial progress of the business.

Cash Flow Report

The cash flow report is one of the more useful tools of financial management because it can serve as an early warning of financial difficulty. When cash flow information is combined with budget information, the two become a particularly valuable management tool.

To generate the report, begin at any account register and press the Alt key and 'R' key. This will bring up the *Reports* screen. Choose *Business Reports*. After the choice of *Business Reports*, a second screen with a listing of available reports appears. Choose *Cash Flow* and when the screen titled *Cash Flow Report* appears, type the name of the report, perhaps Jan-March Cash Flow.

Before proceeding further on the *Cash Flow Report* screen, some format work must be done. Begin by pressing the 'F7' key which brings up a Layout screen. The layout screen has the title *Create Summary Report* and is used to create a personalized format for the report. The title previously selected is already entered. Enter the date range 01/01/9X through 03/31/9X for a three-month report. Next, enter the row headings, which will be *Category* or option 1. Then enter the column heading, which will be option 5 for *Month* because a monthly cash flow report is desired.

After selecting the row and column heading options, press the 'F8' key to choose more options for the Cash Flow report. At the R*eport Organization* option, choose *Cash Flow Basis* or option 2. At *Transfers*, choose *Include all* or option 1. Leave other options at default and press *Enter* twice to return to the *Create Summary Report* screen.

Now comes a most important decision. Which accounts should be included in the report? For cash flow purposes, it is necessary to find all account transactions that reflect money flowing into or out of the business. Make the choice at the bottom of the *Create Summary Report* screen by responding to the prompt *Use Current/All/Selected Accounts*. The required choice is *Selected accounts* so type an 'S' and press *Enter*. This brings up a screen showing all accounts.

Remove unwanted accounts by using the cursor arrow to highlight each and press the space bar to exclude the account. For the cash flow report, only the BUSINESS account is necessary. A*ll other accounts are excluded.* (Only the BUSINESS account is selected because transfers move transactions into or out of this account). When the BUSINESS account is selected and all others excluded, press *Enter* and the monthly cash flow report is generated. Figure 2 is a copy of the report.

Many variations of the cash flow report are available. It can reflect one month or twelve months, arrayed by month. It can be generated as a quarterly format as in Figure 3, or as a semi-annual, or yearly report. Each option is available by making minor changes using the Layout ('F7' key) screen.

Accounts Payable Report

The Accounts Payable report is particularly important to both the farm manager and the lender because it provides one of the earliest indicators of what is happening in the business. Farm businesses that are in a deteriorating financial situation almost always experience a period of rising accounts payable. Unpaid bills accumulate with the feed supplier, the machinery dealer (for parts and repairs), and other suppliers. This usually happens months and sometimes up to two years before financial trauma is apparent.

The Accounts Payable report can be generated in several different formats. Perhaps the most useful version is one that lists all Accounts Payable and payments on account with an outstanding balance. That type of report is relatively easy to generate.

Use the familiar Tra*nsaction* format from the *Other Reports* menu to develop the reports. After selecting this format from the menu, the first screen to appear is the *Create Transactions Report* screen. Begin by pressing the 'F8' key to bring up the *Report Options* screen and at the *Report Organization* prompt, select option 2 for *Cash Flow Basis*. At *Transfers*, select option 2 or *Exclude all*. Move the cursor down the screen to *Memo/Category display* and pick option 1 for *Memo Only*. Press *Enter* three times to move back to the *Create Transactions Report* screen.

Enter a title for the report, perhaps Accounts Payable Report and the date range to be covered. Assume a report is needed for the period January 1 through February 28, so enter 1/01/9X through 2/28/9X. The desired report should provide a listing of transactions and a balance for each firm with which business was transacted, so at the prompt *Subtotal by*, enter option 11 for *Payee*. At *Sort within Subtotal area by*, choose *Date* or option 2.

At the prompt *Use Current/All/Selected accounts* enter 'S' to indicate that only certain accounts will be included in the report. Press *Enter* and a screen listing all accounts appears. Use the cursor arrows to move up and down the screen and, after highlighting a particular account, press the space bar to exclude (or include) that account. Only the one for accounts payable is selected. Press *Enter* and the report is generated. Figure 4 is the completed report.

It should be apparent that the period of time covered by this report can vary from one day to twelve months. The period covered by a specific report should depend on the planned use of the information. As previously indicated, a monthly report of accounts payable is desirable to serve as an early indicator of business financial progress.

Accounts Receivable Report

The procedure for this report is identical to the above except the ACCOUNTS RECEIVABLE account is substituted for the ACCOUNTS PAYABLE account.

Begin with the familiar *Transaction* format from the *Other Reports* menu to develop the reports. The first screen to appear is the *Create Transactions Report* screen. Press the 'F8' key to bring up the *Report Options* screen. At the *Report Organization* prompt, select option 2 for *Cash Flow Basis*. At *Transfers*, select option 2 or *Exclude all*. Move the cursor down the screen to *Memo/Category display* and pick option 1 for *Memo Only*. Press *Enter* three times to move back to the *Create Transactions Report* screen.

Enter a title, perhaps Accounts Receivable Report and the date range to be covered, perhaps 1/01/9X through 06/30/9X. The desired report should provide a listing of transactions and a balance for each firm with which business was transacted, so at the prompt *Subtotal by*, enter option 11 for *Payee*. At *Sort within Subtotal area by*, choose *Date* option 2.

At the prompt *Use Current/All/ Selected accounts* enter 'S' to indicate that only certain accounts will be included in the report. Press *Enter* and a screen listing all accounts appears. Select only the ACCOUNTS RECEIVABLE account. Press *Enter* and the report is generated. Figure 5 is the completed report.

Inventory Reports

The business inventory is a very important part of a complete farm records system. Unfortunately, it is the part of a records system most often not given a lot of attention. Perhaps this was forgivable in the days of pencil and paper recordkeeping when all items had to be laboriously recorded. But with computers and economical, easy-to-use software, the inventory process can be quickly and efficiently completed.

Detailed beginning and ending inventories are essential if the manager wants to accurately determine business earnings. This is more true for farm than for nonfarm businesses because a substantial part of farm earnings for a year is often unsold and in the barn or storage bin at the end of the financial year. Further, it is not uncommon for farms to survive lean times by using accumulated feed and supplies. In this case, the extent of the financial loss cannot be established unless the drawdown of inventories of feed, supplies, and livestock can be determined.

Two types of inventory reports are used by the typical farm recordkeeper. A listing of data in the inventory register is needed to check accuracy of inventory data. This report should be generated immediately after entry of inventory data. The report is produced by using the Transactions option from the *Other Reports* menu. Set the *Subtotal by* option at option 1, *Don't Subtotal*. A transaction listing similar to Figure 6 will result.

A second report, separately generated for the first-of-year and end-of-year listings, is necessary in making comparisons from beginning to end of a year. This report facilitates finding inventory changes that are needed for the Accrual Adjustments in the business income statement. The second report should be generated with categories subtotaled so total feed inventory, for example, is available at a glance.

The second report is secured by using the *Summary* report from the *Other Reports* menu. After the *Summary* report is selected, the first screen to appear is the *Create Summary Report* screen. Start by pressing the 'F8' key to bring up the *Report Options* screen. On this screen, at the *Report Organization* prompt, choose option 2 since the goal is a report in the cash flow format. At *Transfers*, choose *Exclude all*, or option 2. Press *Enter* three times to return to the *Create Summary Report* screen.

Enter a report title, perhaps First-of-Year Inventory and the date range to be used. Since this is a First-of-Year inventory, the date range 1/01/9X through 1/01/9X is appropriate. Next, choose row and column headings. Choose option 1, *Category* for the row heading and option 5, *Month*, for the column heading.

At the prompt *Use Current/All/ Selected accounts*, type 'S' because it will be necessary to select accounts. Press *Enter* and a screen listing all accounts appears. Use the cursor arrows to move up and down the screen, and after highlighting an unwanted account, use the space bar to exclude it. All accounts except the First-of-Year Inventory account should be excluded. When unwanted accounts have been excluded, press *Enter* and the report will be generated. Figure 7 is a copy of the report.

The end-of-year inventory report is produced using exactly the same procedure and format as described above except it will be necessary to make minor changes on the *Create Summary Report* screen and on the accounts selection screen. On the *Create Summary Report* screen, change the title to End-of-Year Inventory and the date range to 12/31/9X through 12/31/9X. Enter the option 'S' to select accounts and when the screen comes up listing all accounts, exclude all accounts except the End-of-Year Inventory account. Press *Enter* and the report is generated. Figure 8 illustrates the report.

When both first-of-year and end-of-year reports have been produced, comparisons of category totals (Example: total supplies) can be made to determine changes in inventory from beginning to end of a year. These changes become input data for the Accrual Adjustments account that is an important component of the profit and loss statement.

Profit and Loss Statement Report

The procedure outlined below produces an accrual basis profit and loss (P&L) statement. While this requires input from several other accounts in the record system, the accrual P&L statement is the only accurate indicator of business earnings. A cash flow basis P&L statement (not corrected for inventory change or accounts payable/receivable) may be of passing interest during the year, but is worth little more than a simple cash flow report. At the end of the annual production cycle, when the manager wants a critical review of business earnings for the year, the accrual basis P&L statement is essential.

Begin by updating the Accrual Adjustments account in the record system. This is done by comparing end-of-year data to first-of-year data from several accounts. The accounts that will be used in the end-of-year and first-of-year comparison are Accounts Payable, Accounts Receivable, First-of-Year Inventory, and End-of-Year Inventory. It is also necessary to determine total depreciation from the business depreciation schedule.

The values determined through the first-of-year and end-of-year comparison become input data (entries) for the categories Accounts Payable Change, Accounts Receivable Change, Feed Inventory Change, Livestock Inventory Change, and Supplies Inventory Change. Total depreciation is also entered as an accrual adjustment.

As an example of the above process, assume a review of first-of-year inventory data reveals a January 1 total feed inventory of $44,160. A similar review of end-of-year inventory data reveals total feed inventory on December 31 of $74,084.50. The increase in feed inventory of $29,924.50 is entered as an *Increase* in the Accrual Adjustments register, "Inventory Change, Feed" category. If feed inventory had decreased during the year, the value would have been entered as a *Decrease* in the register. The same procedure is followed for all categories in the Accrual Adjustments Account,
except depreciation is transferred from the business depreciation schedule.

Now proceed to generation of the profit and loss statement. Beginning from any register press the A*lt* key and the 'R' key to bring up the *Reports* screen. Select *Business Reports* and a second screen appears. From the second screen, select *P & L Statement*. A new screen with the title Profit and Loss Statement appears. The first entry made is the title for our report, perhaps Profit and Loss Statement.

Before proceeding further, it is necessary to provide some layout requirements to the computer. This is done by pressing the 'F7' key which brings up a screen titled *Create Summary Report*, a screen that was used previously. The report title Profit and Loss Statement is already entered. Next, enter the date range for the report which is 01/01/9X through 12/31/9X since the goal is an annual profit and loss statement. Row and column headings need to be determined and the accounts to be included in the profit and loss statement must be selected. The row heading is *Category*, which is option 1, and the column heading is *Year*, which is option 8, because the report is to be an annual profit and loss statement.

The accounts that should be selected are BUSINESS and ACCRUAL ADUSTMENTS. These two accounts include all information required to arrive at business earnings for the year. How is this possible? Why, for example, is the Capital Sales account not included? The reason is simple. *The profit and loss statement should reflect only current year production.* Capital sales may include items produced over a period of years. Any growth in value of capital assets will be reflected in the Accrual Adjustments Account because change in inventory is included there. Only the two accounts indicated are needed to produce an accurate profit and loss statement.

After selecting the accounts to include, press E*nter* and the profit and loss statement is generated. Figure 9 is a copy of the report.

The profit and loss statement has an infinite number of variations. It can be produced as a monthly, quarterly, semi-annual, or annual report. However, before becoming too enthusiastic about the monthly profit and loss statement, remember that it must include an updated inventory and accrual adjustments if it is to be accurate. Those steps take considerable time, so most managers are willing to settle for a semi-annual or annual profit and loss statement.

Balance Sheet Report

The balance sheet provides a summary of business assets, liabilities, and equity (net worth). Through time, the balance sheet provides an indication of a firm's financial progress (over a period of five years, for example). It does not indicate the degree of business profitability, although the presence (or absence) of profitability produces change in the balance sheet through time.

Lenders are very interested in the balance sheet (or financial statement) and consider it an important tool in evaluation of the loan application. Many lenders also use year-to-year balance sheet comparisons in evaluating financial progress of their clients.

Two reports are used in providing balance sheet/net worth information with Quicken 7.0 and the Family Farm Chart of Accounts. The Ba*lance Sheet* from the Business Reports menu is used to provide a summary of assets and liabilities including accounts payable and receivable. This report in the Balance Sheet format provides owner equity. In the Net Worth format, it provides an indication of net worth.

The Balance Sheet format includes only a summary of current, intermediate, long-term assets, and liabilities using single-line summaries. More information is needed, including a listing of the types of property and obligations included among the current, intermediate, and long-term groups. The *Summary Reports* can be used to provide the additional information. It is used as a supplement to the balance sheet report to provide a complete picture of what the record-keeper owns and what he/she owes.

First, to produce the Balance Sheet report, press the *Alt* key and the 'R' key to bring the reports menu to be screen. Select *Business Reports* from the menu and press *Enter*. A second screen appears. Select *Balance Sheet* from the second screen and press *Enter*. A layout screen appears. In order to customize the report, press the 'F7' key. When the larger layout screen appears, enter a title, perhaps Year-end Balance Sheet. Next, provide the date range of the balance sheet data previously entered—the date used for current, intermediate, and long-term asset and liability information—perhaps December 30 for end-of-year data. Thus, the date range is 12/30/9X through 12/30/9X.

At the option *Report at interval of*, choose option 8 for year. Now press the 'F8' key to permit selecting report options. At the option *Report organization*, choose *Net Worth format* if you want a net worth report or select *Balance Sheet format* if you prefer a balance sheet style for your report. Make a selection indicating your preference as to whether numbers are displayed as whole numbers or with cents and press *Enter* to return to the main layout screen.

Back at the main layout screen, the next step is to select accounts to include in the report. At the prompt *Use Current/All/Selected accounts*, type 'S' to select accounts and press *Enter*. A list of accounts appears on the screen. Press the spacebar to select *Include*, or *Detail* for all accounts. A blank space in the *Include in report* column means the account will not be included. Now use the spacebar to include ACCT REC, CURR ASSETS, INTER ASSETS, L.T. ASSETS, ACCT PAY, CURR LIAB, INTER LIAB, and L.T. LIAB. All other accounts should be excluded.

Press *Enter* and the Balance Sheet appears on the screen. Figure 10 illustrates the Balance Sheet format and Figure 11 is an example of the Net Worth format.

Assests/liabilities detail

A second report provides more detail about assets and liabilities. The following procedure produces that report.

Beginning from any register, press the *Alt* key and the 'R' key to bring up the *Reports* screen. Choose *Other Reports*, press *Enter*, and then choose the report option *Summary Reports* from this screen. After choosing the *Summary Reports* option, the now familiar screen titled *Create Summary Report* appears.

Enter a title for the second report, perhaps Assets/Liabilities Detail, and the date range 12/30/9X through 12/30/9X. Select options for the report. To do this, press the 'F8' key which brings up the *Report Options* screen. At the prompt *Report Organization*, enter *Cash Flow Basis* which is option 2. For *Transfers*, choose 2, which is *Exclude all*. Press *Enter* as needed to return to the *Create Summary Report* screen.

Back at the *Create Summary Report* screen, enter row and column headings. The row heading should be *Category*, or option 1 and the column heading should be *Year* or option 8. At the prompt *Show percentage column*, choose the 'N' option.

It is necessary to select accounts so type the letter 'S' in the appropriate field and the listing of accounts will appear on the screen. Select accounts using the cursor arrows to move up or down the screen and the space bar to include or exclude a particular account. The accounts needed are Current, Intermediate, and Long-term Assets and Liabilities. All other accounts should be excluded. When the appropriate accounts are included and all others excluded, press the *Enter* key. Figure 12, the Assets/Liabilities detail report, appears on the screen.

Credit Report

The credit report can take various forms depending on the particular reason for generating the report. The manager may require only a listing of new loans and loan payments for a given period. In that situation, a simple transaction listing of the credit account will suffice.

A somewhat improved version of the above is to group loans and principal payments by lender. This provides a quick check on loan activity and a balance outstanding with each lender. The procedure differs slightly depending on whether we are working with new or old loans.

New loans (received during the current year)

Start from any register and press the A*lt* key and 'R' key. Select *Other Reports* and *Transactions Reports* when the *Reports* screen appears. After selecting *Transactions*, the familiar screen titled *Create Transactions Report* will appear. Enter the title of the report, perhaps Credit Report—New Loans. Enter the date range 1/01/9X through 12/31/9X.

Options information is needed by the computer so press the 'F8' key to bring up the R*eport Options screen*. At the prompt *Report Organization*, choose option 2 to provide a report that reflects the cash flow format. At the *Transfers* option, choose *Include All*.

Move the cursor down to the prompt *Memo/Category Display* and choose Option 1, *Memo Only*. Press *Enter* three times to move back to the *Create Transactions Report* screen. Back at the *Create Transactions Report* screen, the next step is to choose the *Subtotal by option*. Enter option 11 for *Payee*. At the *Sort* option, choose *Date* or option 2. Next, select the accounts to include in the report. Type 'S' for *Selected* accounts at the prompt *Use Current/All/Selected Accounts*. When the accounts screen comes up, use the cursor arrows to move up and down the screen and the space bar to exclude all accounts except the CREDIT account. Press *Enter*. Figure 13 is a copy of the Credit report for new loans.

Old loans (received during a prior year)

Follow a similar procedure as above for new loans with the following changes on the C*reate Transaction Report* screen.

The name of the report is changed to Credit Report—Old Loans. At *Subtotal by*, choose *Account*. At the *Sort* option, choose *Payee*. Select the accounts to include in the report. Include only Old Loan 1, Old Loan 2, etc., that is, only the old loan accounts. Exclude all other accounts. Press *Enter*. Figure 14 is an example of the credit report for old loans.

Income Tax Filing Report

One of the more valuable uses of computing equipment and rapid processing of data is the ability to produce timely information related to the business tax obligation. This benefit from farm recordkeeping has become more significant in recent years because tax rates, and particularly self-employment tax rates, have increased. In today's world, for each $100 change in Schedule 'F' income, total tax outlay changes by nearly $40. The Income Tax Filing report can help the manager provide more detailed and more accurate information to his/her accountant.

The tax filing report outlined below is limited to information contained in the BUSINESS account. In completing tax filing procedure for a specific farm, the farm manager will want to supplement this report with information from the CAPITAL SALES and CAPITAL PURCHASES accounts. Capital sales add capital gain income, and capital purchases impact farm deductions via the depreciation schedule. Those areas are beyond the scope of this publication. Consequently, this discussion is limited to those transactions that affect the IRS Schedule 'F' entries.

The S*ummary* format will be used to generate the tax filing report so begin by choosing *Other Reports* from the *Reports* menu and then *Summary Reports*. Press *Enter* and the screen *Create Summary Report* appears. Enter the title Tax Filing Report and the date range 1/01/9X through 12/31/9X.

Press the 'F8' key to bring up the R*eport Options* screen and at *Report Organization*, choose option 2 or *Cash Flow Basis*. At *Transfers*, choose option 2, *Exclude All*. Press *Enter* three times to return to the *Create Summary Report* screen.

At the *Row Headings* prompt, choose *Category* which is option 1. At the *Column Headings* prompt, select option 8 which is *Year*. Type 'S' at the prompt *Use Current/All/Selected accounts* to permit selecting specific accounts to include in the report. Press *Enter* and when the *Select Accounts to Include* screen appears, use the cursor arrow and the space bar to include the BUSINESS account. All other accounts are excluded. Press *Enter* again and a report similar to Figure 15 is generated.

The tax filing report is a multi-page document. The report summarizes income and expense by category and indicates the appropriate line on the IRS Schedule 'F' to which the total should be transferred. The report also summarizes total income and total expense and indicates net farm profit (the report uses the term "overall total" for the excess of inflow over outflow). The latter amount, together with capital sales, depreciation, and other sources of income and deduction determine the tax bill that must be paid.

Other Reports

Various annual summary reports may be helpful as the farm manager reviews the financial progress or his/her business. For example, an annual detail report that lists, by category, all transactions for the year will be helpful to some managers.

A report in the cash flow format, printed monthly, will be helpful in determining credit needs and what month(s) the business will probably be cash-short and require borrowed money. Advance planning of this sort is often appreciated by the farm lender.

Quicken can develop budgets for the recordkeeper who will spend the time required in providing data. This application is most appropriate after using the program at least a full year, because it will require that long to gather the data. Prior-year budget information is entered and the computer then generates a comparative budget based on current-year data. This is a valuable tool that can be used with monthly cash flow, accounts payable, and accounts receivable reports to stay abreast of financial developments in the business.

Summary

Development of detailed financial records and analysis of the resulting data are important parts of the manager's role. Modern computers and user-friendly software remove much of the time and effort from the recordkeeping task. Managers can secure an abundance of business financial information with minimum commitment of time. The cost of acquiring that information is now much reduced because of lower-priced computers and software.

Quicken is a time-tested, economical, and versatile software package that can be used both for writing checks and maintaining farm financial records. It is easy to learn and will produce most of the reports and documents needed by the typical farm business manager.

The Farm Check Writing Chart of Accounts is specifically designed to maintain farm financial information. It is organized to (1) permit convenient and logical storage of data, (2) permit easy development of business reports that are useful in the management process, and (3) facilitate inter-account transfers that are necessary when writing checks with the computer system. Reports generated from the data are valuable for day-to-day farm management as well as less-frequent applications such as income tax management.

Users of Quicken 7.0 will find that their applications of the program will expand as they become more familiar with the software. An advantage of the software is that it can be used for both recordkeeping and check writing, or only to produce a records system as simple or as advanced as the user wishes it to be.

Figure 1

Figure 2

Figure 2 Continued

Figure 3

Figure 3 Continued

Figure 3 Continued

Figure 4

Figure 5

Figure 6

Figure 7

Figure 8

Figure 9

Figure 9 Continued

Figure 9 Continued

Figure 10

Figure 11

Figure 12

Figure 13

Figure 13 Continued

Figure 14

Figure 15

Figure 15 Continued

Figure 15 Continued

APPENDIX: FARM CHECK WRITING CHART OF ACCOUNTS

Chart of Accounts Continued

Chart of Accounts Continued

Chart of Accounts Continued

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This publication is available in alternative media on request.

Issued in furtherance of Cooperative Extension Work, Acts of Congress May 8 and June 30, 1914, in cooperation with the U.S. Department of Agriculture and the Pennsylvania Legislature. L.F. Hood, Director of Cooperative Extension, The Pennsylvania State University.

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