Getting started in farming

Fifth in a series of six articles on how to get started in farming

NEWARK, Del. - Farming is big business today. High capital requirements, extensive credit, high product sales volume, and large production expenses characterize the financial situation of commercial farmers. You need more financial know-how when you're setting up in farming than at any other time, if the venture is to prosper.

The foundation of any profitable business is a well-organized set of accounts and production records, says University of Delaware extension farm management specialist Dr. Don Tilmon. Successful control of your financial affairs depends on an accurate account of the flow of money into and out of the business. The records you keep are the basis for future production and capital investment decisions.

A complete farm account and records system should contain information on bills paid, income received, accounts payable, accounts receivable, an inventory of farm assets, and documentation on the status of partnership, rental and other business agreements.

These records will help you file your income taxes, report on social security funds paid out, maintain historical data for estate purposes, provide a cost basis for real property, and handle insurance coverage and claims.

A good set of books will make it possible to analyze your farm business so that you know which enterprises are paying for themselves and which aren't. You need accurate records in order to determine the net worth of the business. They also will provide the factual basis for budgeting and planning future management changes. They establish your known resource base and past production record.

Here are some of the things Tilmon says your farm records should include in order to carry out these functions:

An asset and hability accountthis is a physical listing of all your resources or assets, with values assigned, together with any claims or liabilities against them. The asset value minus the liability

an account of your financial position at a given point in time.

A receipt and expense accountthis covers receipts to and expenses paid by the business, usually over a period of one year.

A capital account-this is a record of capital assets and improvements which can't be fully debited as expenses in the year purchased. To recover their full cost you must either depreciate them annually or debit them as a cost to your annual operating account.

A credit account-this records your farm liabilities, keeps track of loans and accounts payable as well as the interest on principal payments and unpaid principal balances. It also covers accounts receivable.

A cash flow account-covers receipts and operating expenses, principal and interest payments, plus new loans and cash purchases for the capital account. It indicates the net cash flow or residual cash of the business, excluding a wage and management allowance for yourselt and any unpaid family labor.

Many tarmers combine personal cash flow with their business cash flow. To find out exactly where you stand in both areas, combine your living expenses, personal tax obligations and other committed personal cash expenditures with your farm-business cash tlow.

Cash flow accounting indicates your ability to meet operating expenses and to carry a given debt load seasonally, annually, and tor the life of the debt commitment.

Production and statistical records-relate the production of crop and livestock enterprises on the farm to the resources used for their production. This information lets you analyze performance and budget for production and management changes.

Enterprise accounts and records-make it possible to separate out of the total farm production record information on individual enterprises for detailed analysis.

A farm business analysis-combines both financial accounts

value provides the net worth or and production records so that you sequences of such items as balance sheet of your farm can identify strong and weak business. A net-worth statement is management areas it thus provides the basis for future decisions on the organization and operation of your farm business. By comparing data from different years, you can measure your tinancial growth and production etticiency.

Operating a tarm business requires large investment of capital and the handling of large sums of money annually. Almost all the decisions you make have an effect on the income tax to be paid and on the amount of money available for the business. As a tarmer, you need to understand the tax consequences of various transactions in order to minimize your tax burden while maximizing after-tax income.

To accomplish this objective, says Tilmon, requires an understanding of the tax con-

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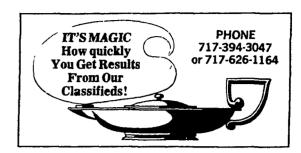
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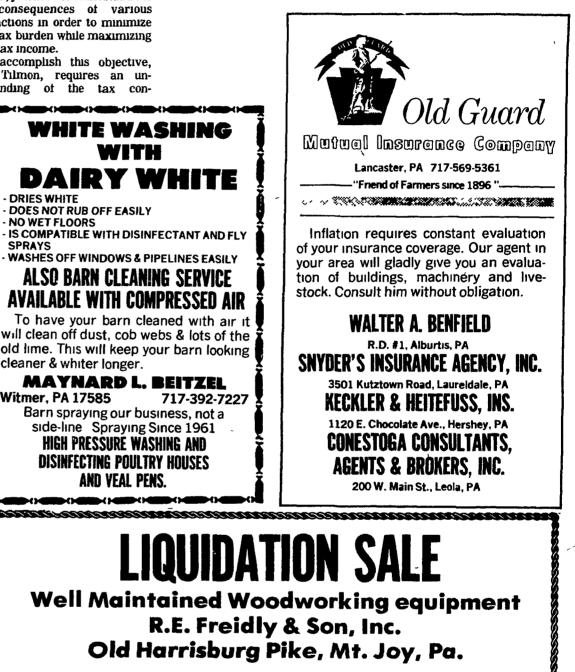
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operating expenses, depreciation, cost basis, capital gains, investment credit, social security

base, and deductible personal expenses. Since income taxes often change from year to year, it is important to keep yourself wellinformed on this subject.





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