

Essentials of Farm Bookkeeping

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Book-keeping is the art of keeping a faithful record of business transactions. It is a meter for detecting leakage and measuring progress. It would seem to be emphasizing the obvious to say that every man engaged in any sort of business enterprise should keep a set of books. Yet it is an astonishing but undeniable fact that many hundreds of farmers keep no systematic record of their affairs. That fact is sufficient excuse for the appearance of this article.

To merely preach the necessity of keeping books is easy; it is not easy to give some practical help by drafting a system according to which they may be kept. The writer intends to make a modest attempt to fulfill this more useful function. The method must, however, be regarded as tentative or suggestive, as the subject of farm book-keeping has not heretofore, particularly in Canada, received the attention it deserves, and very little information is forthcoming as to the success or failure of any plan in actual practice.

The system to be here outlined is adapted, so far as possible, to the needs of the average Canadian farmer. It aims at presenting the simplest possible scheme that can be of any practical use, and to include essential features only, but it may be modified or amplified to suit each individual case.

Income Classified

Most writers on farm economy classify income under three heads: (1) interest on investment, (2) wages for the farmer and his family, (3) profit, or any surplus left over after the legitimate claims of capital and labor have been satisfied. The business is not really flourishing unless there is a fair sum to be placed under each of these three divisions; it is very unsatisfactory if it does not cover at least the first two.

While the above classification of income is perfectly sound and not over difficult to understand, yet, as the writer's aim is a minimum of complexity, and as the word "profit" is so commonly employed in a sense different from that of economics, it would seem desirable to consider income as of two kinds only, (1) the labor income, or wages for the farmer and for any of his family who are not paid in cash, (2) a dividend on the capital invested, which is the surplus left over after the farmer's wages have been allowed for. The percentage that this dividend bears to the capital invested is the measure of the farmer's success in his business, and the writer's aim is to present the simplest system of accounting by which this all important ratio can be determined.

What Accounts are Necessary

To accomplish the object set forth in the preceding paragraph, at least four separate records are essential: (1) an inventory, (2) a cash account, (3) a produce account, (4) a dividend statement. The inventory is a complete schedule of all the assets and liabilities of the farm. It provides us with two indispensable pieces of information: first, the total of the capital investment, on which the interest for the forthcoming year will be computed, and second, by comparison with the inventory of the preceding year, the increase in net worth during the twelve months. The cash account records all receipts and expenditures which are strictly cash. Money received from other sources than from the farm must not be entered in it, unless it is taken care of in a special column. Personal and household expenses must be carefully kept separate from farm expenses. The produce account should show the value of all supplies furnished by the farm to the household. It may also keep a record of produce bought or sold and not paid for at the time. The dividend statement is made annually after completion of the inventory. It takes the material furnished by the other accounts and presents in a condensed form all information necessary to obtain a clear idea of the financial condition of the farm business.

Specimens of each of these records will now be subjoined, with explanatory notes on each.

ASSETS		
Land (including fences, drains, well and other improvements) 125 ac. at \$40 per acre		\$5,000 00
Buildings:		
House	\$1,200 00	
Barns and stable	2,000 00	
Other buildings	550 00	
		3,750 00
Horses:		
1 team heavy horses	450 00	
1 general purpose horse	200 00	
1 year old filly	100 00	
1 colt	40 00	
		790 00
Cattle:		
20 cows	1,000 00	
5 heifers	150 00	
5 calves	50 00	
		1,200 00
Swine:		
12 pigs	60 00	
2 brood sows	50 00	
		110 00
Poultry:		
60 hens	45 00	
4 roosters	4 00	
5 turkeys	10 00	
		59 00
Implements (depreciated through use):		
Gang plow	23 00	
Walking plow	8 00	
Disc harrow	14 00	
Tooth harrow	9 00	
Fanning mill	15 00	
Seeder (new)	80 00	
Cultivator	21 00	
Mower	27 00	
Hay rake	12 00	
Binder	72 00	
Cream separator	50 00	
Wagon	41 00	
Sleigh	17 00	
Buggy	60 00	
Cutter	26 00	
Harness	80 00	
Other implements and tools (every article should be listed separately)	250 00	
		805 00
Supplies on hand:		
Oats, 300 bu. at 40c.	120 00	
Potatoes, 50 bu. at 75c.	37 50	
Seed oats, 40 bu. at 75c.	30 00	
Seed barley, 12 bu. at 90c.	10 80	
Seed corn, 8 bu. at \$1.50	12 00	
Hay, 14 tons at \$8.00	112 00	
Silage, 45 tons at \$2.00	90 00	
Straw, 5 tons at \$3.00	15 00	
Manure, 50 tons at \$1.00	50 00	
		477 30
Growing wheat (4 acres)		30 00
Cash:		
On hand	55 65	
In bank	632 50	
		688 15
Accounts and bills receivable:		
A. S. McMillan's note for \$50 and accrued interest for 2 mo. at 7 per cent.	50 58	
H. L. Humphreys, for potatoes	7 50	
		58 08
Total assets		\$12,967 53
LIABILITIES		
Farm mortgage	\$1,000 00	
Accrued interest on same for 3 mo. at 6 per cent.	15 00	
		1,015 00
Net worth		\$11,952 53

Time for Work

The first question that arises in connection with the annual inventory is the date at which it should be taken. Every farmer must, of course, decide this for

himself, but some time during the winter would appear to be most convenient, because at that season there is no field work to be done, and there are few growing crops, a species of asset whose value it is exceedingly difficult to determine.

The next point to notice is that the value of every asset, save cash and bills receivable, is an estimated value. It becomes necessary, therefore, to consider by what principles we are to be guided in making these estimates. Usually it will be our safest guide to take the price at which a thing can certainly be sold. In the case of real estate, land and buildings are generally, for sale purposes, considered as a unit. To arrive at the value of the land alone, the best way will be to deduct the value of the buildings from the worth of both together. The buildings themselves may be appraised by writing off from their original cost a certain percentage every year for depreciation. This percentage must be based on their durability. If, e.g., a barn be calculated to last, with ordinary repairs, for fifty years, the depreciation would be two per cent., so that, at the end of the period, its value would be zero. If any extensive repairs or improvements are made, their cost should be added to the estimate, while, of course, any extraordinary damage, e.g., due to fire, should be deducted. No hard-and-fast rule can be laid down with regard to depreciation, as it depends on so many variable factors, such as the degree of stanchness of the structures concerned, the care taken of them, etc. On most farms, probably about three per cent. will be sufficient to allow for depreciation on average buildings.

Live Stock

Up to maturity the value of animals increases and then begins to diminish according to the same rule as dead stock. For example, if a horse comes to maturity in five years and may then be expected to live for thirteen years longer, he will, theoretically at least, be worth one-thirteenth less every year from the time he is five years old. But nearly all farmers have a fairly accurate idea of how much they can sell an animal for, and are not likely to go far astray in appraising their live stock. The estimates should, however, be conservative, too low rather than too high.

In making an inventory of implements and tools the golden rule is to go into detail as much as possible. Owing to considerations of space we cannot, in the example given, list all the small tools, but it is very important that this should be done in practice. The amount of money invested in minor articles of farm equipment is by no means negligible and they are, moreover, the very articles that are most liable to be lost. A complete inventory, once made, is not difficult to revise year by year, and much better care is likely to be taken of the tools when it is known that they will have to be accounted for at the annual stocktaking. Depreciation on implements and tools may usually be reckoned at ten per cent. per annum.

The valuation of feed and supplies is not likely to present much difficulty to any farmer who knows his business. Care must be taken not to include household supplies, such as fire-wood, but only those connected with the farm business.

Growing Crops

Probably the most difficult item on which to place a value is a growing crop. This is one of the strongest reasons for taking the farm inventory during the winter. The value of the four acres of fall wheat, mentioned in the example given, has been arrived at by computing what has been expended on the crop up to March 1, i.e., the plowing, harrowing, sowing, seed, etc., as worth about \$7.50 per acre. This estimate is taken from the Census and Statistics Monthly for March, 1912. Such a method of valuation seems better than one based on the probable worth of the crop at maturity, which must in any case be a speculative figure.

In estimating the cash, the total of any money received during the year from private sources, must be deducted.

No further remarks on the inventory appear to be required, unless a reminder be necessary that among the items under "Accounts and bills receivable" and "Liabilities" only business, not private debts, should be included.

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