

THE ESSENTIALS OF FARM BOOK-KEEPING

(Continued)

In a small business it is hardly necessary to keep an extra account with the bank, as the Bank Pass Book is usually sufficient for this purpose. To facilitate reference, however, it will be well, when any payments are made by cheque, to be careful to write full particulars of the transaction upon the stub and to enter the number of the cheque in the cash account in the column shown.

Household and personal expenses need not be itemized. A separate detailed account may be kept for them if desired and then only the totals need be entered in the main account as often as that is balanced.

At the time when sales or purchases are actually made, the amounts may be written in a pocket notebook and subsequently posted in the cash account—the same evening, if at all convenient.

PRODUCE ACCOUNT (SPECIMEN ENTRIES)

DATE	SUPPLIES FURNISHED TO HOUSEHOLD	VALUE
Oct. 20	Turkey	\$ 2 00
" 22	Eggs for week, 6 doz. at 40c.....	2 40
" 22	Milk for week, 35 qts. at 4½c.....	1 57
Nov. 10	Fire-wood, 10 cords at \$4. a cord.....	40 00
Dec. 15	Beef, 300 lbs. at 11c (half carcass).....	33 00
Dec. 24	3 chickens	2 25
Jan. 3	16 evt. flour in exchange for 40 bu. wheat.....	32 00
July 25	12 qts. strawberries at 7c.....	84
Sept. 2	1 bu. table carrots.....	35

Of the produce account, little need be said except that it is absolutely necessary to keep one if the profit returned from the farm is to be justly and accurately calculated. Its purpose is simply to keep a record of all supplies taken off the farm to be used in the house. In the example shown, a few specimen entries are given, taken at various dates through the year. In practice, it would be well to find the totals and carry them forward month by month or perhaps week by week.

DIVIDEND STATEMENT

ITEM	Inventory, 1912	Inventory, 1913
Land, with fences, drains, etc.....	\$ 4,875 00	\$ 5,000 00
Buildings.....	3,866 00	3,750 00
Horses.....	725 00	790 00
Cattle.....	1,240 00	1,200 00
Swine.....	100 00	110 00
Poultry.....	53 50	59 00
Implements.....	832 00	805 00
Supplies.....	452 50	477 30
Growing wheat.....	37 50	30 00
Cash.....	591 25	688 15
Accounts and bills receivable.....	35 00	58 08
Total investment.....	\$ 12,807 75	\$ 12,967 53
Mortgage and accrued interest.....	1,522 50	1,015 00
Net worth each year.....	\$ 11,285 25	\$ 11,952 53
Increase in net worth.....	\$ 667 28	
Personal, household and family expenses.....	1,086 40	
Year's interest on mortgage of \$1,500 at 6 per cent.....	90 00	
Supplies furnished by farm to household.....	240 00	
Rent of house (interest at 6 per cent on its value).....	72 00	
Gross farm gain.....		\$ 2,155 68
Unpaid personal and family labour.....	\$ 900 00	
Board of hired man.....	156 00	1,056 00
Dividend.....		\$ 1,099 68

1280775 10996800 8.5
10246200
7506000
6403875

\$1,099.68 represents a dividend of rather more than 8½ per cent on an investment of \$12,807.75 (as per inventory of March 1, 1912.)

Turning now to the Dividend Statement, the fundamental principle of it is to discover the gross farm gain and to subtract from this the value of all labour not paid in cash, the remainder being the dividend.

The first item in the farm gain is the increase in net worth during the year. To obtain this it will be necessary to compare the inventory of one year with that immediately preceding. It is desirable that a summary of the two inventories be placed side by side in the manner shown. Should the net worth unfortunately show a decrease, the amount of such must be added in with the value of the unpaid labour and deducted from the gross farm gain.

Besides the increase in net worth, the farmer has drawn from the profits of the business his own and his family's living expenses for the year—the total of which is given by the cash account—and has paid the interest on a mortgage; further, the farm has provided him with various supplies—the value of which is shown by the produce account—and has furnished him with a house to live in. The business must be credited with all these items, and, together, they make up the gross farm gain.

Some explanation should probably be made as to why the interest on a mortgage should be included here. It may be objected that this is a business expense, and, as such, should be charged against the business rather than counted in its favour. But we must remember to distinguish between the profit of the farm and the profit of the farmer. The point may perhaps be made clear if we regard the mortgage as a sort of a shareholder in the business, to whom a certain proportion of the dividend must be paid. The farm has made as much profit, no matter to whom it is paid, and therefore the mortgagee's share must be included as part of the farm gain. Another way to elucidate the matter would be to consider how the statement would appear if there were no mortgage. As no interest would have been paid, the amount of cash on hand—as shown by the 1913 inventory—and hence the net worth for that year, would be \$90 greater. The item "Increase in net worth" would then be \$757.28 instead of \$667.28, thus balancing the omission of the item. "Interest on mortgage" and making the gross farm gain the same as before, namely, \$2,155.68.

The gross farm gain having been found and the value of all labour not paid in cash having been deducted therefrom, we obtain a certain sum as dividend.

The next step is to work out what percentage this bears to the capital invested, a ratio which is found by multiplying the amount of the dividend by 100 and dividing by the total of the investment at the beginning of the year, as illustrated in the example shown.

Results

The system of book-keeping above outlined, while simple, supplies some very essential information, which every farmer ought to possess about his business, namely:

- (1) Amount of capital invested.
- (2) Increase or decrease in capital year by year.
- (3) Farm profit or loss.
- (4) Personal and household expenses.
- (5) Value of supplies drawn from farm for household.
- (6) Labour income of farmer and family.
- (7) Distribution of receipts and expenditures (if a classified cash account be kept.)

A more complex system would aim at providing much additional information, such as the precise profit obtained from a particular field or group of stock or the exact cost of producing a quart of milk or a bushel of wheat.

It may be desirable to keep many records that have no direct connection with money matters, e. g. to keep account of the number of hours worked by each man and each horse, the quantity of milk produced by each cow, the number of eggs laid day by day, the date of every animal's birth, etc., etc. But all such records are beyond the scope of this article, which aims, as its title indicates, at presenting merely the essentials of farm book-keeping. It is believed that any farmer who will conduct a system of accounting according to the principles here laid down, will obtain, at the expense of a few minutes every evening and one day a year for stocktaking, a clear insight into the financial side of his business and a sound basis for comparison with other occupations.—P.M.B.