

Essentials of Farm Bookkeeping

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Cash Account

Date	Receipts	Amount	Business	Private	Date	Expenditures	Ch. No.	Amount	Business	Private
1913					1913					
April 1	Cash on hand*	\$ 63.20			April 1	Man's wages for March	55	\$25.00	\$25.00	
" 1	Cash in bank	591.00			" 5	Household expenses		20.50		\$20.50
" 2	Cream check	102.00	\$102.00		" 5	Monkey wrench		.50	.50	
" 5	2 calves sold	20.00	20.00		" 7	Leghorn rooster		2.00	2.00	
" 5	5 doz. eggs	2.00	2.00		" 15	8 bushels seed corn	56	12.00	12.00	
" 12	Dividend on creamery stock	50.00		\$50.00	" 15	Life insurance premium	57	40.00		40.00
" 12	6 doz. eggs	2.10	2.10		" 19	Household expenses		15.30		15.30
" 19	6 doz. eggs	2.10	2.10		" 19	2 tons bran	58	46.00	46.00	
" 26	7 doz. eggs	2.45	2.45		" 19	Pane for stable window		.50	.50	
" 30	10 bushel potatoes	7.50	7.50		" 23	Personal expense		17.80		17.80
					" 26	Household expenses		22.20		22.20
					" 26	Plies		.75	.75	
					" 26	Padlock		.50	.50	
					" 30	Cash on hand		39.30		
					" 30	Cash in bank		600.00		
		\$842.35	\$138.15	\$50.00				\$842.35	\$87.25	\$115.80

*The items in italics should preferably be written in red ink.

The Cash Account

The form of the cash account is not so important as the principle on which it is kept. As its name implies, its purpose is to keep a record of cash transactions, and of them only. Only such receipts and expenditures as involve the actual paying out or receiving of money must be entered in it. Indirect gains and losses will be shown by an increase or decrease in the inventory.

The cash account may be balanced as frequently as desired. In the form shown, it is supposed to be balanced monthly. The account is begun by writing at the head of the "Receipts" column the amount of cash on hand and in the bank. At the end of the month another inventory should be taken of the cash, and this should correspond with the difference between the totals of the two sides of the account. If it does not, and if one is absolutely sure that no mistake has been made in the arithmetical work, either some improper entry has been made or some necessary item has been omitted.

Private Account

It will be necessary, when the dividend statement is made out, to know the amount of the farmer's private (i.e., personal and household) expenses during the year, and also his private receipts, if any. It is desirable, therefore, that all items should be classified as "business" or "private" at the time of entry, and for this purpose two extra columns have been ruled in the form shown. The principle may be still further extended by subdividing the business column into the various departments of the farm. A suggested classification would be: under "Expenditures"—"Stock," "Crops," "Labor," "Improvements," "Improvements and repairs," "Sundries," and under "Receipts"—"Grain," "Hay," "Orchard, garden," "Stock," "Dairy," "Poultry," "Sundries."

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 check, to be careful to write full particulars of the transaction upon the stub and to enter the number of the check 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.

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 thru the year. In practice, it would be well to find the totals and carry them forward month by month or perhaps week by week.

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 4 1/2c.	1.57
Nov. 10	Fire-wood, 10 cords at \$4 a cord	40.00
Dec. 15	Beef, 300 lbs. at 11c. (half carcase)	33.00
Dec. 24	3 chickens	2.25
Jan. 3	16 cwt. flour in exchange for 40 bu. wheat	32.00
July 25	12 qts. strawberries at 7c.	.84
Sept. 2	1 bu. table carrots	.35

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 labor	\$ 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 8 1/2 per cent. on an investment of \$12,807.75 (as per inventory of March 1, 1912)

Profit or Loss

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 labor 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 labor 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.

Workout Percentages

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 favor. 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 mortgagee 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 labor 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) Labor 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.

More Details Possible

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.