

Farm Finance Management – Getting Started

Beginning farmers should manage their finances to strive for profitability. Implementing a good accounting system and developing beginning and ending balance sheets is an important start.

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Many beginning farmers get started in the business because of their passion associated with the production phase of agriculture. They enjoy being outdoors with sunshine in their face, the smell of fresh air and the feel of healthy soil. They may love driving tractors or watching cattle graze. All these factors contribute to the nostalgia associated with farming. Unfortunately, farmers are seldom paid for these wonderful feelings and emotions.

Too often, new farmers focus on production management and neglect the financial side of the business. Unless a beginning farmer has a huge savings of cash or can supplement farm losses with off-farm income, the farming operation needs to be profitable to be sustainable.

Farmers should start with a good accounting system and a beginning balance sheet. The farm accounting system does not need to be complicated or sophisticated. Many beginners start with a hand written system. Michigan State University Extension has a publication, [Farm Records Book for Management \(Bulletin-E1144\)](#) that is comprehensive and understandable.

For producers that prefer computers, there are many accounting software programs designed for small business that will range in price from about \$100-\$200. These programs work well for small farming operations. They are general in their design so the producer will need to build their own list of expense and income account categories. Some producers have used the previously mentioned farm records book or the [IRS Schedule-F Form 1040](#) to build those accounts.

Farmers with more intensive financial accounting needs can find software specifically designed for agriculture. The cost of these programs will generally cost between \$500-\$1000 annually and will usually include technical support. [Michigan State University offers accounting services](#) in the form of a software program with support from campus specialists and local educators.

Regardless of the accounting procedures that a producer decides to use, they need to keep track of receipts and invoices. This can be easily done with a simple filing system with folders for each month of the year. Simply placing receipts and invoices into the monthly folder and recording transactions into a ledger with pertinent information of date, transaction number such as check number or deposit number, vendor, transaction amount and the account category the transaction will be assigned. For example, a transaction to purchase feed may be recorded into a ledger as: purchase date of January 1, 2017, check number 3202, to Joe Feed Dealer, for \$502.00, designated to the Feed category.

Beginning farmers may have a manageable number of transactions that can be recorded into the accounting system on a monthly basis. Farming businesses with a large number of transactions may require weekly or biweekly recording into the accounting system. Educators and specialists from Michigan State University Extension recommend that farmers have a checking account designated for the agriculture business. If transactions are completed via credit card, one should also be designated to the business. Having a business checking account and credit card account allows for easier tracking of farming transactions and separating from personal living expenses and income. The credit card statement should be reviewed monthly to ensure that all transactions were recorded. The checking account should be reconciled each month using the bank statement. Reconciling the bank statement is one of the best guards against making mistakes in the accounting system.

Farmers that implement a good accounting system will find that filing taxes is much easier than a poor or nonexistent system. A good accounting system will also aid in evaluating farm profitability.

Farmers starting a new business should develop a beginning balance sheet. The balance sheet is a listing of all the assets and liabilities of the business. Subtracting the value of liabilities from the value of assets is the net worth of the business. Another balance sheet should be completed at the end of the fiscal year. Comparing beginning and ending year balance sheets will show producers their change in net worth.

At the end of each year, net profit taken from the accounting system and analyzed with beginning and ending balance sheets will determine farm profitability. Farmers can find help with analyzing farm profitability and their financial management practices by contacting a Farm Business Management Educator with Michigan State University. For more information regarding financial management of a beginning farm, contact Frank Wardynski, MSU Extension Educator at 906-884-4386 or wardynsk@anr.msu.edu.