


Bookkeeping for Agribusiness

Maine Farmers Market
Convention
QuickBooks – What now?
1/27/12


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Why do bookkeeping?

- Tax time - Need to determine tax liability, based on income received and allowable deductions.


- Required to report income, but not deductions. Any deductions claimed must be reasonable, actual, allowable and documented.



Why do bookkeeping?

- Financial management - How's the business doing?
 - Which customers and types of business are the most profitable?
 - Fixed and variable expenses
 - Average amount of time for customer to pay
 - Inventory turns
 - Cash on hand

When decisions need to be made, do you have the information you need?




Terminology

What is Bookkeeping?

- Recording of the value of assets, liabilities, income, and expenses for your business.

In other words:


- Keeping track of what is bought, sold, owned, and owned; how much money comes in and goes out, and what profit is left over.



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Basic Accounting concept

- Chart of accounts
 - The chart of accounts is a complete list of your business' accounts and their balances.
- When you keep books for a company, you want to track:
 - Where your income comes from
 - Where you put it
 - What your expenses are for
 - And what you use to pay them
- You track this flow of money through the chart of accounts Think of a chart of accounts as a file cabinet, with a file for each type of accounting information you want to track.




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Financial Reports

- The profit and loss statement (income statement)
 - A summary of the revenue, costs and expenses of a company during the accounting period.
- Statement of cash flows
 - Shows receipts and payments during a specific accounting period


Business entity type determines which reports are required at tax-time.



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Financial Reports

- **The balance sheet**
 - A snapshot of your company on one date. It shows:
 - What you own (assets), including what's owed to you (accounts receivable).
 - What your business owes (liabilities and accounts payable)
 - The net worth of your business (equity)



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Which accounting method?


Cash versus accrual

- **Cash basis**

Income is recorded when money from sales is received and expenses when bills are paid.
- **Accrual basis**

Income is recorded at the time of the sale and expenses when you receive the bill.

Note: When you create reports in QuickBooks, you can switch between cash and accrual reports at any time, regardless of which bookkeeping method you have chosen for tax purposes.




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Bookkeeping Recommendations

- **Maintain a separate bank account for business** - not required for sole prop
- **Know what records are needed to support your tax filings**
 - IRS Pub 583, Pub 225
- **Anticipate tax liabilities** -
 - Self-employment tax on profit
 - Income tax on profit
 - Sales tax, payroll taxes


Separate depreciation schedules and other information for farming



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Biggest QuickBooks mistakes

1. Not getting started
2. Not doing it on a regular basis
3. Confusing Balance sheet and P/L accounts
4. Not understanding some simple underlying accounting principles
5. Not reconciling




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All the Accounting You Need to Know

- **Assets**
 - Includes what you have and what people owe you.
- **Liabilities**
 - What your company owes to other people.
- **Equity**
 - Equity is the difference between what you have and what you owe.


Equity = Assets - Liabilities



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More QuickBooks mistakes


- Problems with the Items List - used in Sales receipts and invoices
- Bank deposits in QuickBooks not matching what goes in the bank ... back to Reconciling



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What to consider

- Beyond what's needed to complete tax returns, what do you want to know about how your farm operates that can be learned from the numbers?
- Are you tracking inventory, profitability of crops, fields, etc?
- Do you know your net worth? Do you need to know it?




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Getting started with an automated system

Review your business processes and decide if they are appropriate both for your current way of doing business and for future growth.

Learn how the software can be a tool for enhancing your operation and use the functions that will work for you.

→ Do research and think about how you want to be operating.



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Getting started with an automated system


- Be prepared to deal with disruption and frustration if you are making changes to business processes.
- Make changes for the right reasons...yours. And keep in mind the benefits that you expect to attain.



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What's on Your Mind?

Questions and topics that you'd like to discuss.



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Resources

IRS Pub 225: Farmer's Tax Guide
<http://forums.quickbooksusers.com/>
<http://www.goflagship.com/articles/>
http://community.intuit.com/start_and_grow/forums
<http://freshmanfarmer.com/category/financials>
<http://www.extension.iastate.edu/Publications/FM1824.pdf>




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Follow-up

Contact information for counseling and training:

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