Farms that use accounting software solely as a tool only for compiling taxes or for managing a check register are missing out on an opportunity to produce valuable management reporting. Accounting software should be used as a tool to provide management valuable information that gives management an analysis on profitability in the different areas of the farm business, such as calculating the cost of production, evaluating financial health, and other management information. These six steps to better farm bookkeeping can make a big difference in your farm's bookkeeping, which in turn can help your farm grow more profitable.

Break Away from Traditional Cash Accounting

Financial records that are tracked on an accrual basis allow management to produce reports that can be used for making sound management decisions based on facts - not speculation. Looking at your financial statements, and the method of accounting you select, determines what you see and when you see it on those statements.

Segment Financial Records

Finding ways to segment the financial records allows for the ability to uncover areas of your business that are not profitable, find opportunities to manage costs, and to be able to capture all of the financial information for a single production cycle on one financial statement for analysis of that production cycle, rather than looking at it from a calendar year perspective.

Blend Product Information with Financial Records

Being able to segment your financial records by different areas of your business, such as locations and production years, means being able to apply that attribute to each of your financial transactions. Learning the best practices for how those attributes are applied can avoid the pitfalls of going through the extra work of tracking that information, only to not get useful analysis reports. The result is a pinpointed understanding of each area of the business, and a chance to improve on each one, for increased profits.

Understand the Difference between Direct Costs and Indirect Costs

Being able to determine costs versus expenses lets you look at your financial statements and know which costs or expenses are related to production and which are considered overhead. Both kinds of expenses can possibly be better managed, but where they are managed differs. Knowing the difference can help pinpoint which areas to improve, for increased profitability.

Determine What You Want out of Financial Records

Learn how determining what you want out of your financial record-keeping system first will help you set it up right from the start. Not knowing what you want can lead to constant refinement. Figuring out which management decisions need to be made will allow you to set up your record-keeping system to produce reports that give you the right answers. When you have the information you want, you can make the changes that lead to increased profitability.