

For many of us, just the thought of financial records, budgets or tax returns, gives a chill up our spine. But the truth is, a lack of proper financial management within an operation can lead to un-informed decision making, and your bottom line can take a real hit.

While attending a large agricultural trade show recently, I was surprised to meet so many producers who still use the “shoebox” method of financial management. You know, take one or more shoeboxes, fill them with all of your operation’s receipts, check stubs, and invoices, etc. At the end of the year bring them to your accountant and await your completed tax return. While this method satisfies Uncle Sam, it does nothing to help you track your operation’s profitability, efficiencies, or the true financial picture of your operation. Stop and think for a minute, wouldn’t it be great to know how profitable each crop you produce really is? If you are like most producers, you probably have more than one entity within your operation. Is one of those entities weighing down your whole operations net profits?



With just a couple clicks of a mouse and easy-to-use accounting software, you can generate information that concerns every aspect of your operation. When it comes to using financial management software, by entering your data once, the ability to analyze data and generate in-depth reporting is limitless. You can personalize your reports, profit centers, accounts, inventories and track data specific to your operation or its entities. I know you’re asking yourself, “Why would I want to use financial management software? My shoebox has fulfilled all of my needs?”

You likely work with a banker, an accountant, or a university extension program, family members, and let’s not forget the government. Like it or not each of these are partners in your operation and reporting to them requires some element of financial record keeping. Financial accounting software can provide unlimited analysis to those members in your operation. For instance:

- When you decide to make a major purchase for your operation, most often that requires a visit with your banker to take out a loan or a draw from your line of credit. You may be your banker’s top client or even dearest friend; you will still be required to produce financial records, such as a financial statement or balance sheet. The bank needs to see a financial picture of your operation, including all assets, liabilities as well as anticipated future profits. In fact, if you can borrow your operation’s funds based on your profits instead of your assets you won’t be forced

Financial Records: Is it Time to "Recycle" the Shoebox?

to liquidate any of your assets, providing you pay your loan in a timely manner required by your lender. By using agricultural accounting software you are able to quickly run balance sheets by book value, market value, and even modified cash value. You can view an actual time period to budget, year-to-date, current year to previous year(s), whatever analysis you need to make better financial decisions for your operation.

- How about that accountant? If you're currently using the "shoebox accounting" system, at best your accountant can give you the basics: a 1040 Schedule F, or cash accounting information within your general ledger, etc. However, by utilizing a computer and accounting software, you can find out so much more about the elements of your operation. Let's take that big shiny tractor for a minute. Click that mouse again and you can find out so many things that tractor or fixed asset adds or subtracts to your bottom line. For instance; you can depreciate your tractor over time, track repairs, fuel, any cost associated with that asset. With detailed information about your operation, your accountant or financial advisor can give you financial advice for planning future asset purchases based on the depletion of your existing assets and their current costs to your operation. You can also get reporting on your yield by acre or revenue by crop, the cost of production, etc. The list goes on and on.
- Is your operation run by you and members of your family? Nothing can be more rewarding than running a family-owned operation providing everyone is on the same page and in agreement on all aspects of the operation. If you and your family members have a hard time making decisions regarding the operation, chances are there are personal feelings involved in the decision making and the process can be more personal rather than business oriented. When you have your operation's finances on the computer and you can access current and historical data to analyze where the strengths and weaknesses are within the operation, it will help take the personal element out of the process and sets the tone for better business decision making.
- One of the responsibilities we all have as individuals and business owners is to pay taxes to the government. The federal and state governments require us to file tax returns as well as pay taxes. Depending on where you live, you may also be responsible for paying a local tax. When you have your financial data on the computer, all of the information you need to file a 1040 Schedule F is quickly available for your return. Also, in today's market, it is more important than ever to have concise records for the Environmental Protection Agency (EPA), with regard to any restricted use chemicals that may be used in your operation.

In today's competitive market, every producer should have computerized farm records. Good financial data gives you the competitive edge and the confidence needed to make the best decisions for your operation's profitability and efficiency. Decisions that will affect your future and that of your family for years to come. Go ahead; recycle the shoebox, the path to sound financial management is but a mouse click away!

Red Wing Software can help your operation move from "shoebox" accounting to CenterPoint Accounting for Agriculture. Red Wing Software's support team can help you get up and running, and on your way to better financial management and financial records. Sign up for a free, personalized demo of CenterPoint today, and see if it's right for your operation!

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