

Farmers want to be doing what they love, and what they love is farming. Other functions often go by the wayside, and understandably so, since farmers are some of the hardest working people. Even though tracking farm expenses may seem like a nuisance, it's necessary for a farm to thrive and grow. Let's look at the why, what and how of tracking farm expenses.

### Why Track Farm Expenses?

There are so many reasons why a farmer should track farm expenses. Probably the most important overall reason is that it allows a farm to use information to make the best decisions. There are other crucial reasons as well.



- Information about your farm may be requested and/or required by various parties, including managers, owners, bankers, consultants and more. You may not be able to get a loan without providing this information, and you can't provide it if you don't track it.
- Tracking expenses enables farmers to make informed decisions which affect the profitability of their farm.
- Tracking expenses may enable farmers to get price breaks on large purchases for chemicals, fertilizer, etc.
- Having expense tracking information can help a farmer decide whether to prepay expenses for income tax purposes.
- The IRS may ask for proof of expenses, inventory items and income reported on tax returns.

### What Information Should Farmers Track?

Now that a need has been established, let's have a look at which information needs to be tracked.

The most important thing to keep track of for taxes are transaction dates and dollar amounts. Include what was bought and sold, along with the quantities for each, and the total dollar amount. To support a tax deduction, the taxpayer should at minimum retain an invoice or receipt which identifies the items purchased and payment method.

## How Should Farmers Track Expenses?

Let's be clear, tracking expenses is important, no matter which method is used. Some farmers are most comfortable using a pencil and paper, and that's definitely better than not tracking at all. Another option for tracking expenses is using Excel, which is a computerized spreadsheet program. This beats tracking by hand as it is faster, and numbers can be added and subtracted quickly. By far though, the most efficient and productive method of tracking expenses is by using an accounting software program that is meant for agriculture. There are many more benefits to ag accounting software than just for tracking expenses, but expense tracking is made quick, efficient and easy by using it. Analysis can be done with just the click of a few buttons.