

HOW TO KEEP FARM ACCOUNTS

R. M. GREEN and D. C. WOOD

Farm Accounts are Necessary—

- A. As a Basis for Planning Business Operations
- B. To Determine Costs of Production
- C. To Secure the Most Advantageous Loan
- D. To Make a Correct Income Tax Report

Recent conditions have developed relative to the farming business that are emphasizing more than ever before the importance to the farmer of having a record of his business transactions to which he can readily refer. It is as important for the farmer to keep a close record of his business as it is for the city man. Poor accounting in city business is credited with being the source of more failures than almost any other business shortcoming. Similarly many cases of failure and mediocre success in farming may be attributed to the same cause.

An honest attempt to keep careful records of the farm business always results in at least one good, namely, the farmer who keeps the records pays closer attention to the details of his business than he ever did before. This close attention to details will lead eventually to improvement and a more profitable business.

Recent investigations into the cost of producing farm products, with the direct intention of modifying legislation on the basis of information obtained, have awakened an interest in this phase of ac-

counting on the farm. While an attempt was made to base this legislation affecting the farmers' business so directly on accurate and thoroughly investigated information, the most reliable information that could be obtained in many cases were estimates on the part of the farmer. While the average of a number of these estimates will be quite accurate, the figures are open to criticism on the part of the consumer because they represent the opinion of one of the persons interested in the case. The tendency, therefore, is for the consumer to discredit the reliability of such information and hold the belief that such estimates are too high. If farmers and their local clubs were able to induce their members to give attention to this business side of farming, it would be possible in such cases as the one mentioned to back up any oral statement or estimates with evidence that would at least allay to some degree the suspicion entertained by the consumers of farm products. If farmers' organizations could furnish reliable business information of this sort they would have in hand a very effective piece of argument in presenting the farmer's case to the public.

The Federal Land Bank and all farm loan companies require confidential business statements as a basis on which to make loans. Most bankers take the attitude that a farmer who can present a good clear statement of his business, showing that he knows what he is doing, has one strong quality to recommend him as a good customer. This one consideration alone makes the keeping of good business accounts on the farm a matter worthy of attention. The Federal Farm Loan Act states that the appraisal of farm land offered as security for loans under this act shall be on the basis of agricultural value, that is, on what the farm will return in the way of income. A farm record showing a good income for the farm, year after year, is the best kind of guarantee that the appraisal will be liberal.

Now that a certain percentage of the farmers will be subject to the income tax, an additional reason has developed for the farmer to put his business accounts in shape. The government under the operation of this law is requiring the farmer to do no more than is required of any other business. It is demanding that all who are subject to the income tax make accurate reports, which means that slipshod methods will not do.

The conditions referred to have caught the attention of some men who will no doubt attempt to capitalize them by imposing on the farmer the belief that it will be necessary to invest in expensive account books. To many farmers who have not made a practice of keeping

books on the farm, the new work will seem a very difficult task, and they will get the idea, which most people do who first undertake farm accounting, that if they can get just the right kind of account book it will do most of the work for them. It is this belief that readily contributes to the popularity of almost every new account book. It is the purpose of this publication to outline briefly a system of accounts for the farm that will serve the four purposes mentioned, and, at the same time, one which can be used in an ordinary inexpensive ledger.

ACCOUNTS TO KEEP

In the plan outlined herein it is recommended that the following main accounts be kept:

- | | |
|------------------------|--------------------------|
| 1. Stock Account | 6. General Farm Account |
| 2. Crop Account | 7. Trading Account |
| 3. Real Estate Account | 8. Bills Owed Me Account |
| 4. Labor Account | 9. Bills I Owe Account |
| 5. Equipment Account | |

In addition to these nine accounts a household account may be kept in which to record household and personal expenses. This account, however, is not absolutely necessary as a part of a record of the farm business. The nine accounts mentioned will be sufficient to give a farmer as much itemized information on his business as he will usually want. However, the system can be extended and the number of accounts increased to suit the wishes of the person keeping them. The degree to which these major accounts may be subdivided is indicated in the following diagram:

1. Stock Account
 - Horses
 - Cattle
 - Hogs
 - Sheep
 - Poultry, etc.
2. Crop Account
 - Corn
 - Oats
 - Wheat
 - Hay
 - Potatoes, etc.

3. Real Estate
 - Permanent improvements
 - Repairs and upkeep
4. Labor Account
5. Equipment Account
 - Investment
 - Repairs and upkeep
6. General Farm
 - Feed, seed, and supplies
 - Interest and taxes
 - Miscellaneous farm expenses and receipts
7. Trading Account
 - Trading Account with Jones Bros.
 - Trading Account with Smith & Co.
8. Bills Owed Me
9. Bills I Owe

It will be best to begin with the nine major accounts and then, after some experience in accounting, divide one or two of them into more detailed accounts. In dividing the major accounts into detailed accounts the most important place to begin would probably be in the stock account, as it is very important that a farmer find which class of stock is responsible for his profits or losses. The nine major accounts fall in one of two classes. One class of accounts is a record between the farmer and parts of his business; the other class is between the farmer and other people. The Stock, Crop, Real Estate, Labor, Equipment, and General Farm accounts fall in the first class. The Trading, Bills I Owe, and Bills Owed Me accounts fall in the second class.

In most cases the names given the accounts suggested indicate the kind of items that should be entered under them. When only one stock account is kept, receipts and expenses from all classes of stock are entered under that account. The same is true of the crop account. Under the Real Estate Account there will be two classes of items: (1) expense for permanent improvements such as a new barn, new fences, new concrete culverts; (2) repairs on real estate, such as repairing buildings, lumber for repairs, reshingling buildings, and similar items. It is recommended in this system of accounting that expenses for permanent improvement and repair of dwelling together with inventory value of dwelling be carried in the Household Account if such account is carried, otherwise they will not enter the accounts. The Labor Ac-

count should be kept as a record of cash paid to regular hired help, which is usually labor paid by the month. Any special or extra labor hired for some particular job, as shocking wheat or pitching hay, should be charged directly to the job it was hired to do, and at the price paid for it. There will sometimes be receipt items in the Labor Account, as when the farmer receives pay for working the roads, carrying mail, acting as clerk at a sale, and for similar items of receipt for labor done off the farm either by the farmer or his hired help.

The Equipment Account is to be kept as a record of farm equipment. Household utensils, kitchen equipment and such items are household expenses and should be carried in the Household Account. There will be two kinds of items to be carried under the Equipment Account—items representing investment in new machinery, and expenses for repairs and upkeep of machinery. There also may occasionally be a receipt item under equipment when money is received for machinery or tools that have been let. Such items as axle grease and machine oil will also be carried under the Equipment Account as they are expenses contributing to the upkeep of equipment.

The General Farm Account is to take care of miscellaneous expenses and receipts that none of the other accounts take care of. The most important items that will be carried in this account are feed and seed, supplies, taxes and interest.

The Trading Account is to be used where produce of some kind, usually dairy or poultry products, is exchanged at the store for articles used in the household or on the farm. It is an account between the farmer and the store or stores with which he is trading.

The Bills Owed Me Account is an account between the farmer and people who owe him, other than those included in the Trading Account. The Bills I Owe Account is a record with people, aside from those included in the Trading Account, whom the farmer owes. The last three accounts are not absolutely necessary to determine the income from the farm, but are useful business accounts.

KEEPING THE ACCOUNTS

Reference to the illustrations will make clear the details of keeping these different accounts. As a sample Stock Account, the illustration on page 6 shows a complete account with hogs. This account was begun April 1, 1914. The first entry was the inventory for that date which is shown as 14 brood sows worth \$252; 45 fattening hogs worth \$315; 80 pigs worth \$80, and 1 boar worth \$20; mak-

ing a total of \$667 as the first inventory on hogs. The next step in keeping the account was an entry of expenses and receipts during the year. As planned in this system, cash receipts and expenses are entered but once and are at that time entered either on the expense or

Stock ACCOUNT

Date	Expenses	Amount		Date	Receipts	Amount	
		\$	c			\$	c
	Inventory						
Apr. 1, 1914	14 Brood Sows	252	00	Apr. 1, 1915	9 Brood Sows	180	00
	45 Fattening Hogs	315	00		42 Fattening Hogs	2200	00
	80 Pigs	80	00		1 Boar	20	00
	1 Boar	20	00				
	First Inventory	667	00		Second Inventory	420	00
1914							
Apr. 22	Hog rings		10	Apr. 21	1 Silt	16	40
July 15	1 Sow	25	00	June 9	Sold 4 hogs @ 6.75	468	35
" 30	Vaccine	30	00	Nov. 23	84 hogs @ 7.5	885	45
				" 30	1 pig @ 6	6	00
	Total Cash Expenses ③	55	10		Total Cash Receipts ④	1376	20
	First Inventory ①	667	00		Second Inventory ②	420	00
	Totals	722	10			1796	20
						420	10
					Net Income ⑤	1074	10
	Man Labor, @ 75¢	73	03		Hogs butchered for use	65	00
	Horse " 32¢	20	23				
	5% Interest on Investment	32	61				
	Equipment Charge	7	80				
	Feed	922	70				
		1056	37			1139	10
						1056	37
					Net Profit	82	73

Encircled numbers indicate position of figures following them on income statement, page 23, where the corresponding figures are indicated by small superior numbers, at the right, instead of encircled numbers.

receipt side of the account to which they belong. Accounts are kept from the standpoint of what is an expense or receipt to the farmer. Referring to the hog account mentioned it will be noticed that the cash

expenses for the year consist of hog rings, 10 cents; one sow, \$25; vaccine, \$30; making a total cash expense for the year of \$55.10. The receipts from hogs consist of one gilt sold for \$16.40; 40 hogs sold for \$468.35; 84 hogs sold at \$885.45; 1 pig sold on account, or on credit for \$6; making a total receipt of \$1376.20 from hogs. It will be noticed on the receipt side, however, that the \$6 for the pig sold November 30 was not received at the time of the sale as the pig was sold on credit. The \$6 therefore, is an item owed to the farmer by an outside person or business, which makes it necessary to enter this item in the Bills Owed Me Account as well as in the Hog Account. The question is immediately raised, of course, as to which side of the Bills Owed Me Account the \$6 should be put on. Between the farmer and his hog business the \$6 was a receipt and is placed on the receipt side of his hog account, but between the farmer and the person to whom he sold the hog, the item is an expense until he gets his money, because the farmer is out his hog with nothing to show for it until he receives the pay. This means that the \$6 is entered on the expense side of Bills Owed Me. Upon receipt of payment for the pig, the cash received should be entered on the receipt side of Bills Owed Me, one entry being sufficient because the transaction was one involving cash. This credit item illustrates the working of a rule which should be learned in keeping accounts in the manner suggested herein, namely, that cash items are entered only once. Items bought or sold on credit are entered twice at the time of the sale or purchase.

After recording expenses and receipts for the year, the next step in keeping the hog account is taking the second inventory at the close of the year. The illustration on page 6 shows the second inventory to consist of 9 brood sows worth \$180, 42 fattening hogs worth \$220, 1 boar worth \$20; making a total second inventory of \$420. The next step in closing the account for the year is adding first inventory to expenses and second inventory to receipts. This gives a total on the expense side of \$722.10 and a total on the receipt side of \$1796.20, leaving a difference of \$1074.10, the net income from hogs for the year. This figure does not represent net profit. To determine the net profit, records other than the financial records mentioned must be kept. The most important of these are feed records and labor records. A suggestion as to a method of keeping such records is given hereafter. Such records are not necessary in order to determine the farmer's net income, but are necessary in order to figure the net profit from different enterprises. The hog record in the illustration on page 6 shows how net profit is determined from the net in-

come. Aside from the net income from hogs, \$65 worth of hogs were butchered and used on the farm. This value is placed on the receipt side of the Hog Account. In addition to the cash expenses already listed there was an expense of labor on hogs of 575 man hours, worth on this farm, \$73.03; 326 horse hours, worth \$20.23; a charge of 5 per cent interest on investment amounting to \$32.61; a charge of \$7.80 for use of equipment; and the value of feed fed amounting to \$922.70, making a total of \$1056.37 on the expense side and \$1139.10 on the receipt side. This leaves a net profit from hogs of \$82.73 after they have paid for their share of labor, feed, equipment cost, and 5 per cent interest on the money invested in them.

It is easy to get almost any information relative to the business that is desired from a record kept in this manner. Total expenses and receipts for the year are plainly indicated, the inventories are readily referred to; the net income is calculated on the record page, and the manner of arriving at net profit is fully itemized. One point is to be watched in connection with recording feed expense. If corn is bought to feed hogs, will be used for no other purpose and will be fed up before the close of the year, the expense may be entered directly under the hog account and should appear along with the items in the illustration, hog rings, sow bought, and vaccine. Then, the feed expense reported at the bottom of the account will include all feed except the feed bought and already charged above. Where corn or other feed is bought and put in cribs or bins out of which all classes of live stock are fed, it is best to charge the expense for the feed at the time of purchase to the General Farm Expense Account in which a record of feed expenses is kept. In this case the portion that goes to hogs would be kept account of in a feed record similar to that outlined on page 22.

A sample Crop Account is illustrated on page 9. The particular crop shown is wheat. The first step in beginning this account, as in other accounts, is to take the first inventory. Only seed bought and used, and labor hired particularly to put in the crop and actually paid for the fall before should appear in this inventory. In the case of the account shown in the illustration, the inventory consists of \$125 for seed used in sowing the crop the fall before. As the labor was done by the farmer himself or his regular hired help, it does not appear in the inventory but will be charged against the crop in determining net profit as explained later. The next work in keeping this account is recording expenses and receipts during the year. In the account illustrated the expenses during the year total \$745. Receipts

total \$1500. The last step before closing the account is taking the second inventory. The second inventory in the account shown is the value of seed bought for the next year's crop. It amounts to \$150. Adding first inventory to expenses and second inventory to receipts

Crop ACCOUNT

Date	Expenses	Amount		Date	Receipts	Amount	
		\$	c			\$	c
Apr. 1, 1914	Inventory Seed, 125 bu	125	00	Apr. 1, 1915	Seed for 1915 crop	150	00
July 1	Binder Twine, 200*	200	00				
Aug 1	Pd for threshing	75	00				
" 15	Seed for 1915 crop	150	00	Aug 15	1500 bu wheat	1500	00
" 16	Pd Cash rent	500	00				
	Total Cash Expenses	745	00		Total Cash Receipts	1500	00
	First Inventory	125	00		Second Inventory	150	00
		870	00			1650	00
						870	00
					Net Income	780	00
	Man Labor, 1200 hrs	180	00				
	Horse Labor, 2000 hrs	160	00				
	Equipment Charge	40	00				
		380	00			780	00
						380	00
					Net Profit	400	00

and subtracting as in other accounts, there is left a net income of \$780. This net income does not represent profit, as labor put in by the farmer and the use of his equipment has not been counted. The labor record on page 21 shows a total of 1200 man hours and 2000

horse hours put in on this crop. At 15 cents an hour the man labor cost \$180. At 8 cents an hour the horse labor on the crop cost \$160. In addition to these charges there is an equipment charge of \$40, figured at the rate of 2 cents a horse hour. If, instead of renting the land, the farmer had owned it, there should have been a charge for interest on investment, taxes, and upkeep, but as rent was actually paid the charge has already been made in recording actual cash expenses. Against the net income of \$780, therefore, there appears on the expense side \$180 for man labor, \$160 for horse labor, and \$40 for equipment charge, making a total of \$380. Subtracting this from the \$780 on the receipt side there is left \$400 which represents net profit. One point to be noticed in keeping this crop account or any other crop account is that any part of the crop that is kept on hand for sale or for feed is not inventoried in this account but in the General Farm Account, or in a Feed and Seed Account if such a special account is carried. The Crop Account is meant to be a record of the current year's crop only. Seed bought and used before the close of the year is charged at the time of the purchase directly to the crop for which it is used. An example is seen in the \$150 expense for seed for the 1915 crop shown in the account on page 9. However, as this expense is for the next year's crop it appears on the receipt side as a second inventory, and would appear in next year's account as a first inventory. If wheat had been bought and not used, it would have been entered in the General Farm Account as an expense and would have appeared in the second inventory of the same account. If the farmer had used his own seed entirely there would have been no \$150 expense for wheat and no \$150 in the second inventory. His sales would have been \$150 less and hence his actual net income \$150 less because he had used up some of his crop. However, in getting at net profit the \$150 used would be added to net income just as hogs butchered and used in the Stock Account, page 6, thus making the net profit \$400 as shown on page 9, where seed was bought. This value of seed used would then appear in next year's wheat account not at an inventory, because it was not a cash expense of the fall before, but as an item along with labor and other costs figured in determining net profit.

In figuring net profit there may be some question as to how the equipment charge is obtained. Arriving at this charge very accurately is a quite technical piece of accounting and it is suggested that farmers calculate this charge at the rate of from two to three cents a horse hour, depending on whether they are a little above or a little below the

average in the value of equipment they keep. This is about what the equipment charge will run under normal conditions and is accurate enough for all practical purposes, since the equipment cost is a relatively small part of the total cost.

Real Estate ACCOUNT

Date	Expenses	Amount		Date	Receipts	Amount	
		\$	c			\$	c
	1 st Inventory				2 ^d Inventory		
Apr. 1-1914	120 acres land @ \$80	9600	00	Apr. 1-1915	120 acres land @ \$80	9600	00
	Horse Barn	600	00	All from	Horse Barn	570	00
	Cattle Sheds	300	00	buildings allowed	Cattle Sheds	315	00
	Hog Houses	75	00	5% depreciation	Hog Houses	141	25
	Coops	100	00		Coops	95	00
	Poultry Houses	35	00		Poultry Houses	33	25
	<u>Total Inventory</u>	<u>10,710</u>	<u>00</u>		<u>Total Inventory</u>	<u>10,754</u>	<u>50</u>
Aug. 3	Repairs on Cattle Sheds	30	00				
" 20	New hog house	70	00				
" 28	Bought all over wire	18	35				
	<u>Total Expenses @</u>	<u>118</u>	<u>35</u>		<u>Total Receipts</u>	<u>None</u>	
	<u>First Inventory @</u>	<u>10,710</u>	<u>00</u>		<u>Second Inventory @</u>	<u>10,754</u>	<u>50</u>
	<u>Total</u>	<u>10,828</u>	<u>35</u>				
		<u>10,754</u>	<u>50</u>				
	<u>Net Decrease @</u>	<u>73</u>	<u>85</u>				

On page 11 is an illustration of a Real Estate Account. The first step in keeping this account is taking the first inventory. In the illustration the inventory was taken April 1, 1914. The first item inventoried was 120 acres of land valued at \$80 an acre making a

total of \$9600. This valuation should apply to the land alone, and improvements should be valued separately. This practice was followed in the account illustrated. The horse barn was valued at \$600; cattle sheds, \$300; hog houses, \$75; cribs, \$100; poultry house, \$35; making a total for the first inventory of \$10710. As suggested previously the inventory value of the dwelling and expenses connected with repairing and improving it are carried in the household account. In listing expenses care should be taken to indicate whether the items of expense are for repair or for new improvements. In the case of the Real Estate Account in the illustration, expenses for the year consisted of repairs on cattle shed, \$30; new hog house, \$70; woven wire, \$18.35—a total for the year of \$118.35. There are no receipts, and there will usually be none. Occasionally there may be a receipt when for example, more lumber is bought than is used and the excess is sold.

The next step in keeping the account is to take the second inventory at the close of the year. Land is inventoried the same in each inventory. In arriving at the value of buildings it is best to follow the practice suggested in the new income tax law. The rates of depreciation allowed by this law have been found by investigation to hold true in most cases. A depreciation of 5 per cent on all frame buildings and $2\frac{1}{2}$ per cent on all stone and brick buildings, except the dwelling is allowed. The cost of actual repairs, however, should be deducted from that sum, and in case actual repairs exceed 5 per cent, the excess is added to the previous inventory to get the second inventory. New improvements should appear in the second inventory at the cost shown on the expense side of the account, which will mean that they will not be counted as an expense during the year but as an investment. Applying these principles to the first inventory in the Real Estate Account on page 11, the horse barn at the second inventory would be valued at \$570 which is 5 per cent less than the valuation at the first inventory. On cattle sheds valued at \$300 in the first inventory, a depreciation of 5 per cent amounts to \$15, but there appears in the expenses for the year an item of \$30 for repair, so that cattle sheds in the second inventory would be valued at \$315. In the case of hog houses valued at \$75 in the first inventory, the second inventory is \$75 minus 5 per cent of \$75, plus \$70, the amount spent in putting up the new hog house. This makes the value of hog houses in the second inventory \$141.25. Cribs valued at \$100 in the first inventory are worth 5 per cent less in the second inventory or \$95. Poultry houses valued at \$35 in the first inventory are worth 5 per cent less in the

second inventory, or \$33.25. This makes a total second inventory of \$10754.50. Subtracting this from the sum of the total expenses for the year and the first inventory, a net decrease or net outlay of \$73.85 is obtained. This net outlay represents the net expense to which the farmer was put for his real estate during the year.

Labor ACCOUNT

Date	Expenses	Amount		Date	Receipts	Amount	
		\$	c			\$	c
	Inventory						
Apr 30	Paid Apr Wage Bill	30	00				
May 31	" May " "	30	00				
	" May " Joe	25	00				
June 30	" June " Bill	30	00				
	" " " Joe	25	00				
July 31	" July " Bill	30	00				
	" " " Joe	25	00				
Aug 31	" Aug. " Dave	27	50				
	" " " Joe	25	00				
Sept 30	" Sept. " Joe	27	50	Sept 1	Receipts for road		
Oct 31	" Oct. " Joe	27	50		work	12	60
Nov 30	" Nov. " Joe	27	50				
Dec 31	" Dec. " Joe	27	50				
Jan 31	" Jan. " Joe	27	50				
Feb 28	" Feb. " Joe	27	50				
Mar 31	" Mar. " Joe	30	00				
	Total Cash Expended	448	50	Total Cash Receipts	12	60	
			12				
	Net Decrease ③	427	90				

The Labor Account illustrated on page 13 is so simple that it needs no explanation. It is merely an account in which to record money paid regular hired labor or received for outside work. Extra

or special hired labor is charged directly to the account for which it is hired. In the case of the account in the illustration, there was a total cash outlay of \$442.50 for regular hired labor. The receipts shown in this account, consist of \$12.60 received for road work. Re-

Farm Equipment ACCOUNT

Date	Expenses	Amount		Date	Receipts	Amount	
		\$	c			\$	c
Apr 1-1914	1 st Inventory				2 ^d Inventory	666	50
	Machinery & Tools	665	00		Machinery & Tools		
	* Note:- Should be listed in detail. Shortened here to make a one-page illustration.				These figures include 10% depreciation less repairs and new equipment bought during year.		
	First Inventory	665	00		Second Inventory	666	50
June 1	Bought 1/2 Gal. Grease		25				
" 11	Bought 1 Cultivator	30	00				
" 15	Repair on Harness	1	50				
Sept 3	Sharpening Plow	1	50				
" 30	Bought set of Harness	35	00				
	Total Cash Outlay	68	25		Total Cash Receipts	None	
	First Inventory ①	665	00		Second Inventory ②	666	50
	Totals	733	25			666	50
		666	50				
	Net Decrease ④	66	75				

ceipts for labor at any outside work, as explained previously, would be entered in this account. Subtracting the \$12.60 receipt from \$442.50 expense, gives a net outlay of \$429.90.

The illustration on page 14 shows the method of keeping the Farm Equipment Account. The first inventory is given as the total.

This was done merely to enable the use of a one page illustration. The farmer, in making this inventory for himself should list his machinery and tools even if it requires two or three pages. Items of ex-

General Farm ACCOUNT

Date	Expenses	Amount		Date	Receipts	Amount	
		\$	c			\$	c
	<i>1st Inventory</i>				<i>2^d Inventory</i>		
<i>Apr. 1-1914</i>	<i>150 bu. Corn @ 75¢</i>	<i>112</i>	<i>50</i>	<i>Apr. 1-1915</i>	<i>200 bu. corn @ 76¢</i>	<i>152</i>	<i>00</i>
	<i>30 bu. oats @ 50¢</i>	<i>15</i>	<i>00</i>		<i>40 bu. Oats @ 50¢</i>	<i>20</i>	<i>00</i>
	<i>7 T. Hay @ \$15</i>	<i>105</i>	<i>00</i>		<i>10 T. Hay @ \$16</i>	<i>160</i>	<i>00</i>
	<i>Binder Twine</i>	<i>4</i>	<i>00</i>				
	<i>Feed Sacks</i>	<i>2</i>	<i>75</i>				
	<i>Dips</i>	<i>1</i>	<i>50</i>				
	<i>Seed Compress</i>	<i>18</i>	<i>00</i>				
	<i>Fertilizer</i>	<i>12</i>	<i>00</i>				
	<i>Total Inventory</i>	<i>270</i>	<i>75</i>		<i>Total Inventory</i>	<i>332</i>	<i>00</i>
<i>Apr. 8</i>	<i>Bought 20 bu. seed corn @ \$1</i>	<i>20</i>	<i>00</i>	<i>June 5</i>	<i>Sold Feed Sacks</i>	<i>3</i>	<i>00</i>
<i>Sept 24</i>	<i>Bought mill feed @ 1²⁵</i>	<i>62</i>	<i>50</i>				
<i>Nov. 28</i>	<i>Bought 10 Sacks Beans</i>	<i>15</i>	<i>00</i>				
<i>Nov. 30</i>	<i>Bought 5 Sacks Shipstiff</i>	<i>6</i>	<i>00</i>				
<i>Jan. 10</i>	<i>Paid General Taxes</i>	<i>64</i>	<i>25</i>	<i>Jan 10</i>	<i>Sold 2 loads firewood</i>	<i>5</i>	<i>00</i>
<i>Jan. 20</i>	<i>Paid Interest on Note</i>	<i>310</i>	<i>00</i>				
	<i>Total Cash Expenses</i>	<i>977</i>	<i>75</i>		<i>Total Cash Receipts</i> (A)	<i>8</i>	<i>00</i>
	<i>First Inventory</i> (B)	<i>270</i>	<i>75</i>		<i>Second Inventory</i> (C)	<i>332</i>	<i>00</i>
	<i>Totals</i>	<i>748</i>	<i>50</i>			<i>340</i>	<i>00</i>
		<i>340</i>	<i>00</i>				
	<i>Net Decrease</i> (D)	<i>408</i>	<i>50</i>				

pense and receipt as they appear in the illustration are of the nature suggested in preceding pages as items that should be carried under the Equipment Account. While no cash receipts appear in the illustration, and there will usually be none, there might be an occasional receipt

when machinery is hired out. In arriving at the second inventory of equipment, a depreciation charge of 10 per cent less repairs and any new machinery bought during the year should be made. This is in accordance with the provision of the new income tax law and is about

Trading ACCOUNT with Smith Grocery Co.

Date	Expenses	Amount		Date	Receipts	Amount	
		\$	c			\$	c
<i>Apr. 1, 1914</i>	<i>Inventory</i>	<i>00</i>	<i>00</i>				
<i>Apr. 15</i>	<i>Eggs, 10 doz. Sold. @c</i>	<i>2</i>	<i>00</i>				
<i>" 17</i>	<i>Butter, 1 lb. " "</i>	<i>1</i>	<i>80</i>				
<i>" 25</i>	<i>" 4 " " "</i>	<i>1</i>	<i>00</i>				
			<i>4</i>				
			<i>80</i>				
<i>May 3</i>	<i>Eggs, 12 doz. Sold. @c</i>	<i>2</i>	<i>40</i>	<i>May 3</i>	<i>Provisions, 1 lb. @c.</i>	<i>2</i>	<i>40</i>
<i>" 10</i>	<i>" 10 " " "</i>	<i>1</i>	<i>50</i>	<i>" 10</i>	<i>" " " "</i>	<i>1</i>	<i>50</i>
<i>" 15</i>	<i>Butter, 5 lbs " "</i>	<i>1</i>	<i>00</i>				
			<i>4</i>				
			<i>90</i>				
	<i>Total Expenses</i>	<i>9</i>	<i>70</i>		<i>Total Receipts</i>	<i>3</i>	<i>90</i>
			<i>3</i>				
			<i>90</i>				
	<i>The Store owes me</i>	<i>5</i>	<i>80</i>				

an average rate of depreciation. Applying this principle to the first inventory, 10 per cent depreciation on \$665 is \$66.50. There were repairs, however, amounting to \$3.00—namely, \$1.50 on harness, and \$1.50 for sharpening plows. This would leave a net depreciation

charge of \$63.50. Subtracting \$63.50 from \$665.00, \$601.50 is obtained. To this must be added the \$65 spent for new equipment, bringing the second inventory up to \$666.50. Adding first inventory to expenses and second inventory to receipts and subtracting, the net outlay or net decrease of \$66.75 is obtained, which represents the farmer's net outlay for equipment.

The General Farm Expense Account illustrated on page 15 is kept after the manner of all the other accounts explained and is used, as mentioned before, to take care of items that do not come under any of the other accounts kept. It should be especially mentioned in connection with this account that seed bought and not used during the year for which the record is being kept, should go to this General Farm expense Account; seed bought and used during the current year should be charged directly to the crop.

The Trading Account illustrated on page 16 shows the use to which this account is put. It will be remembered that one rule laid down in this system of accounting was that items sold or bought on credit must be entered twice at the time of the transaction instead of only once. Referring to the Trading Account on page 16, the first item on the expense side under date of April 15, namely "Eggs, 10 doz. sold on account for \$2" would appear on the receipt side of the Poultry Account as this item represents a receipt to the farmer from poultry. However, the item also has to be entered on the expense side of the Trading Account, since cash was not received at the time of the transaction. The \$2 represents a receipt to the farmer from his poultry. However, between the farmer and the store with which he is trading, it represents an expense until he receives either cash or produce in its place. In a like manner the item of "Butter sold on April 17 for \$1.80" will appear on the receipt side of the Cattle Account and at the same time on the expense side of the Trading Account.

On the receipt side of the Trading Account under date of May 3 is an item of groceries bought on account. This item would appear on the expense side of the Household Account if a Household Account is kept, since between the farmer and his household, the groceries bought represent an expense, while between the farmer and the store they represent a receipt on the farmer's part. The Trading Account is used where produce is traded for groceries, drygoods, and similar supplies, and there may be a trading account for each store with which this kind of business is done. The expense side shows the amount the farmer is out in the way of produce. The receipt side

shows the amount he receives in the way of groceries, merchandise, and similar supplies. The balance or difference between the expenses and receipts shows what he owes the store or what the store owes him.

On page 18 is shown a Bills Owed Me or Bills Receivable

BILLS OWED ME ACCOUNT

Date	Expenses	Amount		Date	Receipts	Amount	
		\$	c			\$	c
	<i>Inventory</i>				<i>S. D. Inventory</i>		
<i>Apr. 1 - 1914</i>		<i>None</i>		<i>Apr. 1 - 1914</i>	<i>Due from W. Blank for pig</i>	<i>6</i>	<i>00</i>
	<i>Nov. 15 - Sold pig on account to W. Blank</i>	<i>6</i>	<i>00</i>				

Account. This account works very much like the Trading Account except that the Trading Account is used when produce is traded for groceries or merchandise, or in other words, is used as a store account. On the expense side of the Bills Owed Me Account under date of

November 30 is an item "Sold one pig on account, \$6." As this is an item sold on account it should be entered twice. It should appear on the receipt side of the Hog Account because it represents a receipt from hogs. On the other hand as cash was not received at the time of the transaction, between the farmer and the man to whom he sold the hog, the \$6 is the farmer's expense until he gets his pay. He was out his hog and received nothing at the time of the transaction. As the \$6 was not paid during the year for which the record is shown, it is still owed the farmer at the end of the year and appears in the second inventory under Bills Owed Me Account and should be carried as a first inventory value in next year's Bills Owed Me Account.

On page 20 is shown a sample Bills I Owe Account or Bills Payable Account. It will be noticed at once that this account differs from other accounts in that the first inventory is placed on the receipt side of the account. In the account shown the amount owed by the farmer to other persons consisted of a mortgage on the farm of \$4000, and a personal note of \$1500, a total of \$5500 owed at the beginning of the year. After taking this first inventory, the next step in keeping this account is to record on the receipt side of the account money borrowed, and on the expense side, debts paid. As shown in the illustration under date of July 3 there appears an item, "borrowed \$5". This is placed on the receipt side of Bills I Owe Account, as it represents a receipt of cash not from any part of the farmer's business or his labor but from an outside person or concern. On the expense side under date of July 30 appears an item of expense "paid \$5". This item appears on the expense side as it represented an actual cash expense, not for some part of the business but in paying back a debt to some outside person. On the expense side under the same date appears an item of \$500 paid on note. Summing up, it will be noticed that there is a total expense of \$505 during the year and a total receipt of \$5—that is, a total of \$5 was borrowed during the year and a total of \$505 paid off, making the second inventory or the amount he owed at the end of the year \$500 less than the first inventory or the amount he owed at the beginning of the year.

There is considerable confusion in the minds of many farmers beginning this account work as to just how much of a record it is necessary for them to keep in order to get at their net income. If an inventory is taken at the beginning of the year a record of total expenses and receipts during the year is kept, and a second inventory taken at the end of the year, the net income on the different accounts can be obtained as shown in the records here illustrated under the name of

“Net Income.” If the net incomes so calculated on all the accounts are added, and the sum of the net decreases on all accounts subtracted from this sum, the difference will be the total net income from the year’s business. (See page 23) It is not necessary for him to pro-

BILLS I OWE ACCOUNT

Date	Expenses	Amount		Date	Receipts	Amount	
		\$	c			\$	c
<i>Apr. 1, 1915</i>				<i>Apr. 1, 1914</i>	<i>1st</i> <i>Inventory</i>		
	<i>Mortgage on Farms</i>	<i>4000</i>	<i>00</i>		<i>Mortgage on Farms</i>	<i>4000</i>	<i>00</i>
	<i>Personal Note</i>	<i>1000</i>	<i>00</i>		<i>Personal Note</i>	<i>1500</i>	<i>00</i>
	<i>Owed at end of Year</i>	<i>5000</i>	<i>00</i>		<i>Owed first of Year</i>	<i>5500</i>	<i>00</i>
<i>July 30</i>	<i>Pd. Bill Smith</i>	<i>5</i>	<i>00</i>	<i>July 3</i>	<i>Borrowed of Bill Smith</i>	<i>5</i>	<i>00</i>
<i>" "</i>	<i>" on Personal Note</i>	<i>500</i>	<i>00</i>				
	<i>Total Expenses</i>	<i>5405</i>	<i>00</i>		<i>Total Receipts</i>	<i>5</i>	<i>00</i>
	<i>Second Inventory</i>	<i>5400</i>	<i>00</i>		<i>Final Inventory</i>	<i>5500</i>	<i>00</i>
		<i>5805</i>	<i>00</i>			<i>5505</i>	<i>00</i>

ceed further in his accounting and keep a labor or feed record like those shown on pages 21 and 22. However, if he wants to determine, especially in the case of stock and crop accounts, approximately what net profit they paid him, he will have to keep some kind of a

labor and feed record or else estimate the items of expense that are listed in the accounts below the item marked "Net Income". It is possible after the farmer has arrived at his net income that he can estimate these other items of expense fairly closely and in this way de-

LABOR RECORD

DATE	Hors								Wheat Fall 1919		Wheat 1916		Wheat Fall 1915					
	MAN HRS.	HORSE HRS.	MAN HRS.	HORSE HRS.	MAN HRS.	HORSE HRS.	MAN HRS.	HORSE HRS.	MAN HRS.	HORSE HRS.	MAN HRS.	HORSE HRS.	MAN HRS.	HORSE HRS.	MAN HRS.	HORSE HRS.	MAN HRS.	HORSE HRS.
1																		
2																		
3																		
4																		
5																		
6																		
7																		
8																		
9																		
10																		
11																		
12																		
13																		
14																		
15																		
16																		
17																		
18																		
19																		
20																		
21																		
22																		
23																		
24																		
25																		
26																		
27																		
28																		
29																		
30																		
31																		
Rep. in Chores	<i>may be itemized and entered each day, or lumped at the end of the month.</i>																	
* Totals	875.326										400.900		580.1100					

NOTE—Charge the cash cost of any Special or Extra Labor direct to the account it was hired for, and do not enter the time here.

*Totals for year are shown in this illustration. There will be one or more such pages for each month.

termine with a fair degree of accuracy the approximate net profit on his important enterprises.

On page 21 is a record for keeping account of time put in on different crops and classes of livestock. As said before it is not

necessary to keep this record in order to find net income, but it does help to show whether different parts of the business pay other expenses and allow wages or not. The fall work on wheat done the year before is shown on the same page as the work done on wheat in the

FARM OF _____						MONTH _____					
FEED STATEMENT											
Stock		Feed Fed		Value		Stock		Feed Fed		Value	
Class	No.	Kind	Amount	\$	c	Class	No.	Kind	Amount	\$	c
Other Hogs						Work Horses					
						Other Horses					
Sheep											
						Milk Cows					
Poultry											
						Other Cattle					
MEMORANDA											
Milk Received for Month				Value							
Wage Rate of Regular Help											
Eggs Set						Brood Sows					
Stock		Date	No.	Weight							
Fattening Cattle											
Fattening Hogs											

current year. This was done to make a one page illustration. In practice this fall work would be recorded in last year's book. Fall work on next year's crop is entered under "Wheat fall of 1915".

The Feed Statement shown on page 22 like the time record,

is not necessary to find the net income but assists in determining whether stock pays market prices for feed, whether raised or bought, in addition to meeting other expenses. These statements are made out once a month, usually by careful estimating. Sometimes a farmer is so situated that it is practical to weigh all feed, but in many cases it is not possible to do this. Careful weighing of a few feeds and then estimating on that basis will give accurate enough results for all practical purposes.

An income statement which consists of the first and second inventories, expenses and receipts and net incomes or decreases, is shown on page 23. With this information alone the total net income on the whole farm is obtained as shown on this statement. The net income so determined is the income that is subject to taxation under the income tax law if it equals or exceeds \$2000 in the case of married men without dependent children or \$1000 in the case of single men, and represents the income for the year from the farmer's entire business.

INCOME STATEMENT

Accounts	Inventories		Business Transacted		Net	
	1914	1915	Exp'nses	Receipts	Income	Decrease
Page 6, Stock	667.00 ¹	420.00 ²	55.10 ³	1376.20 ⁴	1074.10 ⁵	
Page 9, Crop	125.00 ¹	150.00 ²	745.00 ³	1500.00 ⁴	780.00 ⁵	
Page 11, Real Estate	10710.00 ¹	10754.50 ²	118.35 ³			73.85 ⁴
Page 13, Labor			442.50 ¹	12.60 ²		429.90 ³
Page 14, Equipment	665.00 ¹	666.50 ²	68.25 ³			66.75 ⁴
Page 15, General Farm	270.75 ¹	332.00 ²	477.75 ³	8.00 ⁴		408.50 ⁵
	12437.75	12323.00	1906.95	2896.80	1854.10	979.00
Gain			989.85		Net	
Loss		114.75			Income	875.10
	12437.75	12437.75	2896.80	2896.80	1854.10	1854.10

Note: This statement is not complete in all details in that only hogs were considered in the stock account and only one crop, in the crop account. It does, however, show the method to be followed in making out such a statement.

The gain of \$875.10, it will be noticed, is made up of a gain in business transacted of \$989.85 and a loss in inventory of \$114.75, the difference between which is \$875.10.

Keeping inventories and receipts and expenses is enough to determine net income. For instance, in the case of the hog account, page 6, the net income of \$1074.10 is obtained without allowing for feed. To offset this there is in the General Farm Expense Account, the expense of all feed bought. Feed raised and fed, while an expense against hogs, would be an equal receipt from crops, thus cancelling each other in so far as the total income on the farm is concerned.

Getting at net profit on particular enterprises is a different matter. In this case the object is to determine whether the income represents pay for all labor, interest on investment, and other such charges.

It will be noticed that the statement on page 23 is easily taken from the accounts if kept and closed as suggested. Each figure in the income statement that is taken from the accounts has before it the page number showing on what page it is found, and a superior number above it showing the location of the item on the page.

This system of accounting does not meet all the requirements of technical cost accounting. It omits some of the more tedious details. Its main purpose is to enable the farmer to find his net income and with the aid of labor records and feed records to determine, in the case of a few of his most important enterprises, whether the net income from those enterprises covers the cost of labor at a fair rate, interest on investment, equipment charge, and the value of feed fed. In following this plan, the farmer's net income is accurately obtained and his net profits on important enterprises are determined closely enough for all practical purposes. If the farmer's main object in keeping the account is not so much studying the profitableness of his enterprises as it is in getting at his income for tax purposes, he need not carry his record beyond the point where net income is determined. It is realized that even with only nine main accounts to keep, such a system of accounting as that outlined demands both time and effort. It is but a fond delusion to think that some mechanically arranged book will do the farmer's work for him in keeping his records. Keeping the records is extra farm work and will take some time and trouble, but will usually prove itself worth both.

THE INCOME TAX AND FARM ACCOUNTING

The following points are listed merely to call attention to some of the more important details in the Income Tax Law as they apply to the farmer's methods of accounting. The brief statement here made is not a full discussion of the law. The full text can be obtained by farmers from their revenue collector.

Form 1040A, Internal Revenue, one form on which the individual income tax return for the year 1917 is to be made, mentions the following point applying to income from farm businesses: "If you keep books showing income *accrued* (or accumulated) you may report such income instead of cash received and may also report expenses *incurred* instead of expenses actually paid." This provision is made for reporting income for tax purposes in one of two ways: (a) on the basis of income accumulated (method of determining explained in the fore part of this publication and in statement on page 23); (b) on the basis of income in cash (method outlined in pages 26 to 28, and form illustrated on page 27.)

Other important points to be noticed are:

Rent paid for farm or business property, not including rent paid for dwelling should be reported as farm expense.

Wear and tear of buildings, machinery, or other equipment owned by the tax payer and used in farming, not offset by repairs, may be added to the cost of repairs during the year. Wear and tear should not exceed the cost of the property divided by its probable life in years. Do not report wear and tear or repairs of dwelling occupied by the taxpayer or his household equipment.

A decrease in the value of land will not be allowed as a deduction.

Losses by fire, storm, other casualties or theft may be deducted only to the extent that they are not covered by insurance or made good by repairs reported as expense.

Under taxes do not report inheritance taxes, Federal income taxes, or taxes especially assessed for local improvements or betterment, such as road, street, sidewalks, or sewers.

The income tax report must be returned for the calendar year, that is, from January to January, meaning that farmers keeping their book for the purpose of making income tax returns should open and close them on January 1.

The following deductions as depreciation are allowable: 5 per cent on frame buildings; $2\frac{1}{2}$ per cent on brick and stone buildings; 10 per cent on the cost of farm machinery and implements. This deduction must be based upon actual depreciation through use or partial destruction. If its value is the same as the year previous, there is no deduction.

There is more than one method of making returns. Where the farmer does not make inventory and keep a complete set of accounts, he may report his income on the basis of cash actually paid and cash

actually received, whether applying to that year's business or the next. In such case, one important provision made is that the cost of stock purchased for resale is an allowable deduction under the item of expense, but money expended for stock for breeding purposes is listed as capital invested and amounts so expended do not constitute allowable deductions. In making returns on the cash basis, the farmer avoids the work of inventorying, but must watch more closely those expenses allowed as deductions, whereas in the case of men inventorying, the increase in the second inventory takes care of many of these items and in the long run is less confusing than the report on a strictly cash basis.

A circular sent out from the Treasury Department to collectors of internal revenue contains the following statement that will be of interest to farmers who are already keeping books: "Farmers who keep books according to some approved method of accounting which clearly shows the net income, may prepare the returns from such books although the method of accounting may not be strictly in accordance with the provision of this decision."

A METHOD OF ACCOUNTING WHERE ONLY A FINANCIAL RECORD IS KEPT

The system of accounting described in preceding pages serves several purposes. Where accounts are kept solely for determining the actual cash receipts and expenses, without any attempt at keeping account of time put in on different branches of the business or of feed consumed by different classes of livestock, an account book made up of forms shown on page 27 is easier to keep than the book already described. These accounting forms are designed especially for farmers who are keeping their accounts mainly for making an income tax report.

In using the forms suggested it is intended that the two forms shown would face each other when put in book form—the first one on the left hand page and the second one on the right hand page. The double column on the left hand page is for recording total expenses and receipts at the time of the transaction. In other words, this column serves as a day book or diary in which to record receipts and expenses without classifying them under any special account. If only this column is kept, at the end of the year, total expenses and receipts at least can be obtained. The right hand page provides several double columns of expenses and receipts. These are intended to be used in classifying expenses and receipts under a few of the more im-

portant accounts. This page in a way serves as an abbreviated ledger where part of the expenses and receipts recorded on the left hand page can be classified. This work of classifying can be done at the end of the year or during any spare time. The important point in keeping accounts in this manner is to make the entry on the left hand page before it is forgotten. Various headings may be put at the top of the double columns on the right hand page, depending on what accounts the farmer is interested in separating from the rest of his business. In the illustration shown a few headings have been suggested. For the man keeping accounts in order to help him in making his income tax returns, the heading suggested for the first double column on the right hand page can be used to advantage. In this double column under "Expenses" would be entered all expenses or deductions not allowed under the income tax law. Such items of expense would be money paid for breeding stock, new farm machinery, new farm buildings, and any personal or household expenses. Under "Receipts" in this column would appear any receipts that are exempted under the income tax law. Such items would be returned premiums on insurance policy, any sum received as a bequest, interest on Liberty Loan Bonds and such other items as are specifically exempted under the law. As suggested above, the other headings may be made to suit the man keeping the account.

While such a method of farm accounting does not suit the farmer who wants considerable detail, it is a very simple and convenient way to keep sufficient record of the business for an intelligent income tax report. It is appended to this discussion as a suggestion to those who are interested in farm accounting mainly for the purpose of reporting on income that is subject to taxation, and for the use of those who are keeping farm accounts for the first time and are likely to tire of a complex system.