

FARM ACCOUNTS

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FOREWORD

KEEPING reliable farm accounts is not only desirable, but obligatory for an ever expanding proportion of Britain's farming population. In particular, the provisions of the Finance Act 1948 will, in practice, entail the keeping of such accounts by many farmers who may never have considered them necessary before. The publication of this useful work is therefore particularly timely.

The process of preparing farm accounts for the sole purpose of assisting His Majesty's Collectors of Taxes would, however, be a lugubrious task. Fortunately these accounts have other and more attractive uses. Well-kept accounts are the best and indeed the only possible yardstick by which the individual farmer can measure his efficiency from one year to another. The farmer without accounts is like a mariner without instruments. He may arrive at the desired destination, but he will rarely know how he got there, and he will certainly find it difficult to get there again by exactly the same route.

The present volume will provide the modern farmer with all the guidance he requires in preparing clear and simple accounts of all his operations. It is intended for the farmer rather than the accountant, yet it omits nothing which is essential to sound accounting practice. It will prove of immense assistance to those who are keeping full accounts for the first time, and will scarcely be less helpful in improving the general standard prevailing at present.

Mr. Bray and Dr. Dawe are to be congratulated on producing so valuable and comprehensive a work. British agriculture has made great technical progress in recent years, and this book will help farmers in assessing the value and taking full advantage of new techniques.

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INTRODUCTION

THE literature of farm accounts has ancient origins but it is still developing. Practices of accounting in agriculture largely arose from two sources, absentee ownership and division of interests between owners of land and various types of operators on shares. In this country monastic houses, absentee lords, and later the political- or commercial-minded aristocracy who superseded the monasteries gave their stewards instructions on accounting and scrutinized the results of estate and farming enterprises shown in the accounts which were rendered. The movements of thought which caused the agricultural revolution of the eighteenth century and grew with it included some cogitations on accounts and their uses. Before the opening of the last century there were books which treated of the capitalization of farms and of their separate enterprises, and of costs of producing crops as well as of general financial results. Just over a century ago one author of a treatise on agriculture introduced the subject 'of the general management of a farm' with a section 'of the keeping of accounts' which itself began with the statement 'no one is ever ruined who keeps good accounts'. At that time stationers were printing and selling special forms of farmers' account books, some at least of which had features which would now be associated with costing processes.

Nevertheless, in the early part of this century the general public impression of agriculture was of an industry whose finances were controlled by rule-of-thumb methods, with only occasional formal accounting. It was often said that farmers were not interested in accounts and, in spite of the study which had been given to the subject, that accounts had little of practical value to offer to farmers and farming. From more intimate experience it was said that in the farming community there were different views of their uses and values. There have been farmers who have not wished to know exactly what were their net financial positions or their annual profits for the reason that, so long as these were not formally ascertained, no other person could know them and the farmer himself would have the closest knowledge however vague that might be. Dealing with this position, the present authors say that frankness of the farmer with himself is the first essential of accounting, but that frankness need not be extended to others unless he so chooses. There have been other farmers who had some desire to know their net worth and their profits but who believed that the means of

finding out were so troublesome and difficult as to be beyond their powers. There are still a few farmers and other people who will say that, because some of the effects of agricultural processes are not exactly measurable, their final economic results cannot be known and the intermediate accounting results are of relatively little value. On the other hand, there have always been farmers who have valued the accounts they have kept both as general financial checks and as guides to future management. And the effects of processes which are least subject to direct measurement always eventually appear in results of accounts.

A very considerable change began when provisions for the formal study of agricultural economics were made just before World War I. Ideas of the value of accounting have been continually presented to the farming community since that time, and experience has proved that these ideas had sound foundations. The development and extension of forms of accounting have been stimulated by economic conditions arising in war periods. As a result of experiments in agricultural costing and of the need of regulating prices the Government of 1918 set up a national costing organization. This was short-lived, but when it disappeared the system of providing economic advisory services for farmers began. Between 1920 and 1939 the Institute for Research in Agricultural Economics and the Provincial Departments of Agricultural Economics at the Universities of Cambridge, Reading, Bristol, Leeds, Manchester, Wales, and Durham, and the Wye, Harper Adams, Seale Hayne, and Midland Colleges of Agriculture, had proved to a large number of farmers the practical value of financial recording and accounting in many forms. Records have been made in the form of general financial accounts, cost accounts of all enterprises within the farm, and in the form of records of costs of single enterprises, with that known as the farm management survey. Individual and collective results of these systems of financial recording have been analysed and returned to farmers both individually and collectively. The enterprise of the Milk Marketing Board, for instance, has been responsible for the provision of continuous records of costs of milk production for a period of over twelve years. Some information is available on the costs of production of nearly all farm crops and other chief products. No other 'infant industry' was ever developed in this country with the assistance of so much financial information and economic analysis as was provided for the producers of sugar-beet.

The principles of accounting are fundamental to all these forms of financial and economic recording and analysis. Under pressure of

taxation during World War I many farmers sought the assistance of professional accountants. When taxation was eased the interests of farmers in the ascertainment of earnings flagged, but the interest of professional accountants was sustained. They have made valuable contributions to the special theories and practices of farm accountancy. And gradually during the inter-war period an appreciable number of accountants in private practice were extending their clientele amongst farmers. Some of these were associated with the Provincial Agricultural Economists in the processes of developing the uses of accounts for economic advisory purposes.

The change in the bases of taxation of farming profits in 1941 again stimulated extensive and keen interest in farm accounting. Many accountants have vastly increased their agricultural practices and everyone who was capable of offering advice or assistance to farmers has been called upon for service. On the whole it appears that the farming community has been excellently served in respect of the use of accounts for taxation purposes. There is, however, danger of wastage of effort in accounting processes if the results are treated merely as histories of profits or losses, of value chiefly in relation to individual taxation. While they are of immediate value and importance as records of results of past activities, their greater value should be realized as sources of information on causes of profits or losses and as guides to future uses of economic resources and to principles of management.

Altogether, many agencies and conditions have contributed to the current interest in methods and uses of farm accounting. Books on the subject have been written by agriculturists, agricultural economists, and professionally trained accountants. The present study is unique in that it has been prepared jointly by a Chartered Accountant and an Agricultural Economist who have not only studied the subject in all its theoretical aspects but have wide experience of the practical processes of accounting in all their many variations. Here are treated the principles and processes of valuation, of recording, of summarization, and of interpretation. Doubtless, as in every other case of the kind, other views may be possible at some points. The purposes for which records and accounts are kept and summaries are prepared will always influence to some extent the principles followed and the methods used. The chief considerations are that the principles and methods advocated shall be as simple as may be practical; shall be fully consistent; and shall yield such results as may be legally, rationally, and fairly dependable, but in particular such as will yield the individual farmer reliable information about

the structure, operation, and results of his own business. In relation to the objects set, the systems advocated here will successfully meet these tests.

While great progress has been made and highly valuable results have already been achieved, there is still much to be done in developing knowledge and practice in this field of farm accounting. This book may be welcomed by farmers, accountants, and agricultural economists, and by all those who are concerned with the establishment of an efficient and prosperous agricultural industry.

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IN writing this book we have been fully conscious of the debt we owe to many colleagues, since knowledge often only expands and increases by almost imperceptible additions to what is already known. In this continuous process of building, many have contributed their quota, some in recent years, others in much earlier times. From the nature of the present book, which ranges, albeit extremely briefly, from early economic history to present-day accounting practice, it is clearly impossible and, indeed, superfluous even to attempt to mention either the sources of information or their authors.

We feel, however, that two exceptions must be made. Firstly, we are indebted to J. T. Beresford, of Manor Farm, Fitzhead, Somerset, who has placed at our disposal his complete system of financial and cost accounts upon which we have drawn very freely.

Secondly, we must thank A. W. Ashby, Director of the Agricultural Economics Research Institute, University of Oxford, who has so carefully read the manuscript and made a number of valuable criticisms which, coming from a colleague of many years' standing, have been all the more appreciated.

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CONTENTS

FOREWORD. <i>By S. J. LEE, Economics Department, National Farmers' Union</i>	v
INTRODUCTION. <i>By A. W. ASHBY, Director of the Agricultural Economics Research Institute, in the University of Oxford</i>	vi
ACKNOWLEDGEMENTS	x
CHAPTER I. THE FARM ACCOUNTS	i
CHAPTER II. FARM COSTS	32
CHAPTER III. THE AGRICULTURAL ECONOMIST AND THE FARMER	74
CHAPTER IV. THE PROFESSIONAL ACCOUNTANT AND THE FARMER	90
APPENDIXES:	
I. FARM ACCOUNT BOOK AS DESIGNED BY THE DEPARTMENT OF AGRICULTURAL ECONOMICS IN THE UNIVERSITY OF BRISTOL	103
II. SPECIMEN FORMS	136
III. NOTE ON THE POSSIBLE EXPANSION OF THE PRIMARY RETURN	137
IV. TENTH SCHEDULE TO THE FINANCE ACT, 1947	141
INDEX	147