

FARM RECORDS

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PREFACE

The central purpose of this book is to develop practical applications of accounts and records in the management of the farm. Treatises on farm accounting have, too often, explained the mechanical perfections of an elaborate system of accounts and then stopped without pointing out specific uses to which such a system could be put—as though the accounts were the end in themselves. On the other hand, it has been perhaps equally common for writers on the general subject of farm management to propound the theoretical aspects of farm organization and management without setting up practical means by which they could actually be applied in the management of a real farm.

To obtain maximum returns from a farm the use of records is indispensable. Without them the farmer's plans rest on approximate and often inaccurate estimates of his farm's performance. With records the plans can be based on arrays of facts much broader than memory would permit, which are just as accurate for periods 5 or 10 years in the past as for yesterday.

It will be noticed that the term "records" is used here rather than the narrower term "accounts." The strictly financial accounts of a farm are generally very simple as compared with those of a commercial or industrial undertaking. Other records referring to physical rather than financial performance are also highly useful. These include records of the consumption of feed, rates of gain on livestock, yields of crops, and other facts concerning the physical performance of the farm. Our primary purpose is to facilitate the management of the farm; therefore, we shall consider whatever forms of records promise to be of assistance.

The records should be so planned as to permit an appraisal of the methods of operation. The requirements of data needed for practical use are more exacting than for the more abstract and general concepts used in classroom discussions of principles. In the classroom the elementary concepts of land, labor, fixed or circulating capital are satisfactory. In practice the farmer seldom deals with economically "pure" elements of production. Some forms of capital and of land are often inextricably mingled. Some of the most important questions regarding organization may be concerned, not with whether sufficient capital is being combined with the land and labor, but with the specific form which the capital takes. Should a specific piece of machinery be purchased? Is the

highest yielding variety of seed being used for a particular crop? For practically successful operation the records must yield information of this type rather than the theoretically simple but practically impossible measures of "pure" land, labor, and capital.

RELATIONSHIPS BETWEEN BUDGETS AND RECORDS

It will be noted that the integration of a plan or budget with the records is given a prominent place in this book. The concept of a general budget has, in a large measure, grown up independently of the records. Records also have often been treated without regard to the budget. As a matter of fact, records and budget are parts of the same system and neither achieves its greatest usefulness without leaning heavily upon the other. Each section of the budget is a plan for a definite part of the business. To measure the degree to which that plan is attained it is necessary to set up a corresponding account for its financial aspects and, frequently, statistical records for its physical operation. The budget depends on the records both for its basic information and also for its effective operation.

There is another important relationship. The principal purpose of the budget is to facilitate the selection of enterprises. If an enterprise is to yield satisfactory returns it is necessary, first, that conditions on the specific farm be favorable to it and, second, that it be operated efficiently. Thus, the fact that a certain crop or livestock enterprise has failed to yield satisfactory returns does not necessarily indicate that it should be left out of the organization. It may be that conditions were favorable, but an undesirable technique or inefficient methods have caused it to make a poor showing in comparison with some enterprise that was better managed. Therefore, it is important that efficiency of operation be examined before the budget is drawn up. The use of records is essential to this study of efficiency.

GENERAL PLAN OF THE BOOK

The book is divided into five main parts. The first of these deals with the preliminary budget and the status of the business at the beginning of the farm year. The records of physical performance are considered immediately after the budget. There are several reasons for this. In a sense the physical operations are the sources of the financial results. Also of some importance, the discussion of some of the physical records at this state helps to disabuse the student's mind of the idea that he is seriously concerned only with financial accounts.

Part II deals with the important problem of valuation. A number of perplexing questions are raised here, and while it is not possible to give

the reader simple formulas for placing valuations on all of the many types of farm assets, it is hoped that, at least, some of the principal problems of valuation are brought to his attention. The accountant must, from the nature of his task, arrive at definite valuations which will serve the practical requirements of the business which he is analyzing.

Part III takes up the simpler forms and processes of accounting which are applicable to the farm. The general principle of double entry accounting is described briefly. This was omitted from the first edition of this book because it was assumed that students engaged in a detailed study of farm accounting are already familiar with the double entry system. In many agricultural colleges, however, this assumption proved unfounded since their curricula do not require a course in general accounting before that in farm records. In order that their students might see the process of financial accounting as a whole, rather than as fragments of single entry accounts, some instructors urged that there should be at least a brief treatment of double entry accounting in this book. Chapters 10 and 11 have been added in response to these requests. Where a less complete and systematic treatment of farm accounting is desired, the instructor and students can go directly from Chapter 9 to Chapter 12.

Part IV is concerned with what is, after all, the most important aspect of the records, their analysis and interpretation. Chapter 14 discusses the presentation and interpretation of farm income. Chapter 15 attempts to point out ways in which the records can be utilized before the end of the accounting year, a subject that has been badly neglected in the formal treatment of the subject. Chapter 16 describes the general analysis of the records for the farm as a whole, while Chapter 17 urges more accurate interpretation of the data and suggests the complexity of relationships between the various parts of the business.

Part V takes up a few of the more important special problems of farm accounting, such as accounting for perennial crops, treatment of partnerships under farm conditions, and the accounts for landowners.

Throughout the book an effort is made to avoid the presentation of methods or forms as rigid prescriptions. Neither a student nor his instructor can anticipate exactly what situations or problems the student may have to deal with later on. Consequently, the objective must be, not to equip the student with a standard set of forms, but rather to develop such a grasp of the general method that he can develop or modify forms and procedures to fit whatever problems may confront him.

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