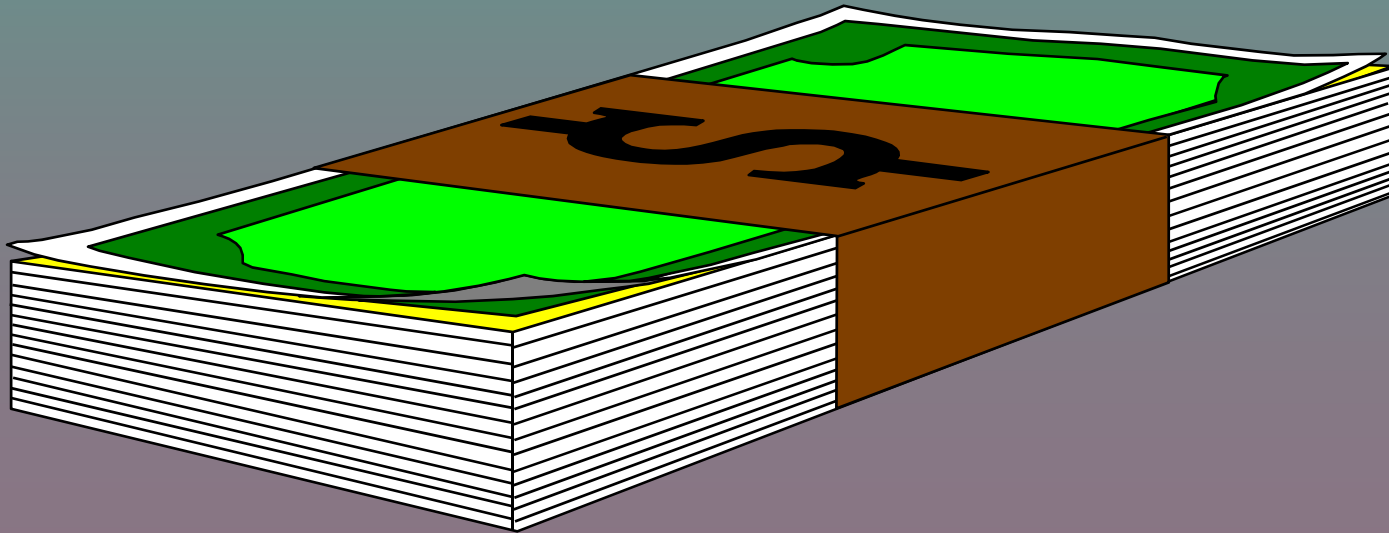


# Record Keeping

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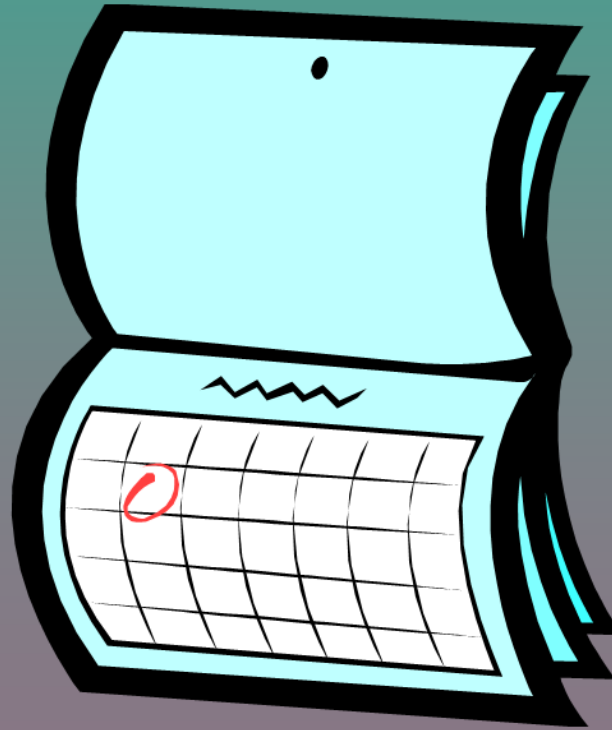


# Why keep records?

- ▶ Determine profit or loss
- ▶ Provide information for analysis
  - ways to improve
  - weak and strong points
  - determine where most profits are made
- ▶ provide info for income tax
- ▶ Provide info for obtaining credit
- ▶ Provide info government programs
- ▶ Provide info for settling estates
- ▶ Provide evidence for FFA Awards

# When to keep records?

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# When to Keep Records?

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- As soon as you begin an enterprise
- RECORD KEEPING IS A CONTINUOUS PROCESS!!!
- Summarize
  - Monthly
  - Quarterly
  - Annually- “fiscal year”

Financial Terms YOU  
need to know!

# ASSET

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# ASSET

---

ANYTHING YOU OWN THAT HAS  
MONETARY VALUE

# ASSETS

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CURRENT – USED UP WITHIN 1 YEAR

NON CURRENT – CANNOT BE  
CONVERTED TO CASH WITHOUT  
INTERRUPTING BUSINESS





# Current Assets

- Cash
- Checking Account
- Savings Account
- Feeder Animals
- Feed
- Crops growing in the field
- Supplies



- Prepaid Expenses
- Accounts Receivable
- Crops in storage
- Items held for resale



# Non Current Assets

- Equipment
- Buildings
- Land
- Breeding Livestock
- Improvements
- Vehicles



# LIABILITY

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# LIABILITY

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A DEBT OWED TO AN OUTSIDER

# CURRENT LIABILITIES

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## EXAMPLES

- ACCOUNTS PAYABLE
- LOANS DUE WITHIN ONE YEAR
- TAXES DUE WITHIN ONE YEAR
- CURRENT PORTIONS OF LONG TERM LOANS

# NON CURRENT LIABILITIES

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## EXAMPLES

- ANYTHING DUE AFTER ONE YEAR
- LOANS FOR VEHICLES, EQUIPMENT, LAND OR BUILDINGS

# “Intermediate”

(not used any more)

- *Intermediate Assets – Equipment, Breeding Animals, machinery, etc.*
- *Intermediate Liabilities – due from 1-5 years.*

# NET WORTH

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ASSETS - LIABILITIES



# NET WORTH STATEMENT

*(aka Balance Sheet or Financial Statement)*

- shows the financial health of a business at a given point in time
- Snapshot
- Does not show profitability
- Must be completely accurate
- Confidential

## COMPONENTS OF A NET WORTH STATEMENT

- **Total assets = current assets + non-current assets**
- **Total liabilities = current liabilities + non-current liabilities.**
- **Net worth or equity = total assets – total liabilities**

Assets	Liabilities
Current Assets	Current Liabilities
Non Current Assets	Non Current Liabilities
Total Assets	Total Liabilities
	Net Worth

# Income Statements

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## Uses

- ▶ Summarize revenues and expenses
- ▶ Determining profit or loss
- ▶ Explaining changes in owner equity
- ▶ Supporting Loan Application
- ▶ Calculating financial measures
  - profitability
  - financial efficiency
  - repayment capacity

# **Income**

**Money or gain in capital  
generated as a result of  
doing business**

# Revenue (Income)

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## Cash Examples

### Cash Sales

Sales of plant/crops  
manufactured goods  
livestock

Government Payments

Custom Work Receipts

# **Expense**

**A Cost of Doing Business**

# Expenses

- **Operational Expense** – purchase of short term asset that will be gone once its used
- **Capital Expense** – purchase of a long term asset that can be depreciated and reused
- **Personal Expense** – an expense not related to the business
- **Overhead** – business expense that does not change with the level of production



# Expenses

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## Cash Examples

Chemical

Feed

Seed

Fertilizer

Fuel

etc.

Net Income =

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Revenue - Expenses

# Cash Method of Accounting

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Income is recorded when it is received and expenses are recorded when they are paid.

# Cash vs. Accrual Method

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Accrual method uses changes in inventory values, cash does not.

# Cash vs. Accrual Method

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Cash method is easier, accrual is more accurate.

# Cash Method

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Cash Revenues

- Cash Expenses

= Net Cash Income

Net Cash Income

- Depreciation

= Net Income from Operations

Net Income from Operations

- Gain/Loss on sale of capital assets

= Net Income

# Accrual Method

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Gross Revenues

- Cash Expenses

- Depreciation

+/- Non-Cash Expense Adjustment (inventory)

= Net Income from operation

=/- gain/loss on sale of capital assets

= Net Income

# **Depreciation**

**Decline in usefulness of  
assets due to usage and  
time**

**Set by the IRS**



# **Inventory**

**Summary of assets at one  
time in one place**

CALVIN AND HOBBS



FLUSH!



THE END