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Agricultural Accounting Computer Software

By

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Agricultural Accounting Computer Software¹

In order to achieve and sustain a successful business, managers rely on sound recordkeeping practices and analysis of those records. It is impossible to make informed decisions regarding business operation without good records. An adequate record system is also necessary to determine the financial condition or profitability of a business.

Several large, and some medium sized, farms have internal accounting personnel and sophisticated records and systems to guide management. On other farms the owner is also the manager and may be responsible for all record keeping and documentation. Smaller operations may rely on a bookkeeper, perhaps the spouse, or an outside accounting firm to maintain the farm's records and provide guidance. Regardless of the size or complexity of the farm operation, business owners need to be familiar with, and recognize the importance of, proper recordkeeping and data analysis requirements..

Why Recordkeeping AND Analysis Is NECESSARY!

Complete and accurate business records are crucial for business success for a number of reasons:

1. Complete and accurate records provide the data that provides the foundation for those business decisions that lead to an efficient and profitable operation. Accurate and complete records enable the owner/manager identify all the assets, liabilities, income and expenses of the operation. Information gained from analyzing complete and accurate records can be compared to appropriate industry averages which will enable managers to identify both the strong and weak aspects of the business operation.
2. Complete and accurate records are essential for the preparation of current financial statements, such as the balance sheet, the income statement (profit and loss statement) and cash-flow projections. These financial statements are essential for obtaining credit as well as for maintaining good relations with your creditor. Accurate financial statements present a complete picture of the total business operation.
3. Complete and accurate records are critical at tax time. Complete and accurate records are essential for tax management and to insure that managers don't underpay or overpay taxes. In addition, complete and accurate records are invaluable if the operation had to undergo an IRS audit.

What Will Records Tell You?

The specific records a farm operation should be keeping track of depends on a number of factors. Some of these factors include the goals and objectives for both the family and the business, the needs and abilities of the manager, and the financial situation

¹ Revised and edited from "Choose the Right Accounting Software" by Gerald R. Anderson, Hoards' Dairyman, June 2004 and Recordkeeping And Cash Flow: Effective Techniques located on the Internet at: <http://www.gofso.com/Premium/BS/fg/fg-Records.html>

of the operation. What records will be kept and to what detail will be based on several factors, but should be based on what information should be provided to the operation's decision makers. Over time, the information needs of the manager may change; the record keeping system should change and be updated to reflect current business needs.

Some questions to consider in assessing the record keeping needs of a farm operation may include:

- How much cash is on hand and readily available? How much cash is tied up in inventory? What is the actual working-capital budget and does it match with the cash flow of the operation?
- What is the value of the assets and how much is owed against those assets?
- What level of income is available now and how much income will be needed in the future?
- What is the level of expenses, including payroll, equipment and facilities maintenance, and benefit plans for yourself and employees (such as health insurance, retirement, etc.)?
- How does the performance of the operation compare with last year, or last few years?
- How does the performance of the business compare with the projections in the cash flow projection and the business plan?

Good recordkeeping, although time-consuming and at times difficult, should not be minimized. While good record-keeping and analysis can seem to take time away from running the business, it is essential, as shown above. In fact, it is how top managers manage and stay in control of their business.

Recordkeeping System

A basic record keeping system should be simple to use, easy to understand, reliable, accurate, consistent, and designed to provide information on a timely basis. Regardless of the complexity of the recordkeeping system used, it must be USED in order to be an effective management tool. Some recordkeeping systems are simply hard-copy paper systems while others may be complex computer software programs. The remainder of this article is focused on the considerations to keep in mind when choosing computerized agricultural accounting systems.

Computerized Agricultural Accounting Systems²

Computerized agricultural accounting systems can make analyzing records an easier task. The computer can make it easier to develop the financial statements and projections required for management and creditors. There are numerous computer programs for making, keeping, and analyzing records. Programs range from basic bookkeeping and "what if" analysis to inventory control or financial projections.

However, buying financial software can be a difficult and frustrating process since computer systems and software are constantly changing and improving. The key is to match the software to the computer operating system. For example: Windows XP may not run a piece of software built for Windows 98, ME, or 2000. The differences in available agricultural accounting systems can appear as quickly as the computer can load the software. The following tips can be used to explore the features and examine the differences between individual computer programs that make up the vast selection of agricultural accounting programs available. It is recommended that ample time be allowed for the review of software choices so that the change to, or adoption of, a new agricultural accounting programs can coincide with the beginning of the accounting period of the new fiscal year (usually January 1).

- If the software supplier will allow, it may be advantageous to take the program home and try it on a trial basis with the option to return it later if the program proves to be unsatisfactory. If the software supplier does not allow an "at-home" trial, they may have a demonstration program which can be used for evaluation.
- It is helpful to know how often the company updates their software and at what cost to the user. When asking about updates, it is also important to know what happens to the information already stored in the computer when an update is installed. The best programs will not lose the existing data when the software is updated. Another consideration is whether the company will still provide support and assistance for an older version of the software once an update has been released. A farmer may be satisfied with the accounting program in its current form and choose not to accept the newer versions, or updates. For these individuals, support of older versions of the software will be important.
- It is recommended that buyers of agricultural accounting programs understand where they can get help if they have problems with the accounting program. Support for some computer programs may be a written manual; others may only have built-in help menus, while other companies may offer both. Some

² Any of a number of different computer programs ranging from simple bookkeeping to complex double entry systems capable of detailed analysis and projections could be used as a computerized information system. Additional information on using a personal computer can be found at <http://www.gofso.com/Premium/BS/fg/fg-Computerizing.html>.

suppliers and/or vendors may offer classes on how to use the software. Different types, levels, and extent of support and assistance may be available at different levels of cost to the user and all support and assistance options should be considered prior to purchasing any software.

- When considering an agricultural accounting program, it is important to know how flexible the program is. As with any farming situation, the unexpected will happen. It is important that the recordkeeping system be able to handle the unexpected. This may be simple as recording an expenditure that does not fit into expense categories already contained in the program or being able to record a one-time income.
- One aspect of the accounting program that potential user will want to check is speed. In reference to computer accounting programs, speed can refer to many different aspects, all of which should be considered. The first thing to check is how fast the program is to use. As a user you will want to know how long it takes to provide the input data to the program. Users will also want to check the speed and frequency that information is saved by the computer. Some programs may save information after each entry which, while safe and secure, makes for slow data input.

Users will also want to know the speed and easy of correcting mistakes. Some programs allow for quick and simple corrections while other program seem to require a deep understanding of accounting as they require additional entries to “fix” a mistake made earlier. Another aspect of fixing a data input problem is to check and see if the program sets limits on some types of data entry. For example, if the program accepts an information entry for May 38th, it may accept other information that would be unreasonable. Computer software that contains some form of checks and balances may be more desirable.

Users will also want to know how fast the program can generate the required reports or find the information needed. Some agricultural accounting programs contain complex search features that would allow users to search for information by date, by category, or other user-defined classification schemes.

- One of the critical features of agricultural accounting software computer programs is the reports that can be produced from the information entered. Complete accounting programs should be able to generate accurate financial statements including the balance sheet (statement of net worth), income statement (profit and loss statement) and cash flow statement (both historic and projected). In addition, the accounting program should be able to provide the information that is necessary for decision making which might mean cost of production information, chemical records, field records, and specific livestock information records for genetics and vaccinations. The reports generated by the accounting program should be easily read and understood by all users of

the reports which may include employees, creditors, and other family members.

Some accounting programs include pre-defined categories of expense and income accounts which may allow the output from those programs to closely parallel or match income tax documents such as the 1040 form and Schedule F. Among the selection of accounting programs are those programs which include the ability to generate and track depreciation schedules. Other programs may have other additional or “add-on” features which would be helpful to manage the farm business.

- Perhaps the area that most shoppers of computer software are concerned about is the cost of the program. Several factors have already been mentioned which can affect the cost of computer software: level and type of support, updates and updating costs, additional features or modules, ability to generate more and more detailed reports. Usually, more features means higher costs. However, more features, and higher costs, may be worth every dollar of expense if the accounting system can help managers develop, maintain and use complete and accurate business records. Less expensive systems that do not provide the necessary information may prove to be quite costly if the results are missed business opportunities. Likewise, accounting programs that provide so much detail that managers become overwhelmed with information may not be worth any more than less expensive systems. The key is to match the cost with the features needed.

The information presented in this article should help illustrate that farm business managers need complete and accurate records of their business if they are to be successful. Regardless of whether the record keeping and analysis system is done by hand with pencil and paper, or if it is done with the aid of a computer, analysis of records is critical and must be completed if the manager is expected to make informed and profitable decisions. Computerized systems can make this task easier and guidelines have been presented to help in the comparing features of and selecting a computerized farm accounting record system. For those who are interested, a very complete and detailed listing of farm accounting software can be found at:

<http://www.farm.com/Software.htm>

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