

Bookkeeping and Cash Flow

POPPY DAVIS

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20 Keys to Small Farm Success

Poppy Davis

PEOPLE

Income Tax
Legal liability (individual, joint, and limited)
Operating Agreements
Employment Agreements
Contractors
Contracts

LAND/FACILITY

Lease
Local Zoning and Use Law
Water and Runoff
Environmental Regulations
Property Taxes

ACTIVITIES

Business Plan/Marketing Plan
Financial Plan/Plan for Credit Needs
Bookkeeping System
Cash Flow Budgeting
Production Data (Yields, Prices, Costs)
Food Safety
Worker/Owner Safety
Operating Procedures/Emergency Plans
Temporary or Long Term Successor

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Topics

1. Accounting and Budgeting Concepts

- a) Balance Sheet**
- b) Income Statement**
- c) Cash flow budgeting**
- d) The role of credit**

2. Bookkeeping Systems

- a) Manual**
- b) QuickBooks**

1. Accounting and Budgeting

ACCOUNTING STRUCTURE

INCOME STATEMENT:

INCOME (current period earnings)

minus EXPENSE (current expenditures to create income)

equals NET INCOME/LOSS (increases or decreases equity)

ACCOUNTING STRUCTURE

BALANCE SHEET:

ASSETS (long term life/value)

minus LIABILITIES (debts)

equals EQUITY (Net worth, owner's wealth)

Balance Sheet

The Balance Sheet is cumulative and as of a point in time, usually the last day of the accounting year.

Assets

Cash

Accounts Receivable

Real Property (Land, land improvements, buildings)

Tangible Personal Property (you can move it)

Intangible Assets (you can't see it, but it has value)

Liabilities

Accounts Payable

Notes and loans payable

Other legal obligations if they are reasonable certain and can be calculated

Equity - Cumulative owners' contributions, less cumulative owner draws, plus or minus cumulative net income or loss . **Or, easier, calculated as the difference between assets and liabilities.**

Income Statement - managing for current profitability

The income statement covers an accounting period, usually a month, quarter or year.

- ***Income or revenue*** means income or revenue for the accounting period
 - Regular earned income
 - Other income from events other than the normal course of business – i.e. income from selling an asset.
- ***Expenses*** means for the accounting period
 - Any expense incurred in order to generate the normal revenue of the business.
 - Other unusual expenses still related to the business – i.e. the costs of selling an asset

Cash Flow Budgeting

	Jan	Feb	Mar	...	Dec.
Cash Received From Operations	-	1,000	2,000	4,000	2,000
Less Cash Paid Out For Operational Expenses	<u>(1,500)</u>	<u>(2,000)</u>	<u>(3,000)</u>	<u>(1,500)</u>	<u>(1,500)</u>
Equals NET CASH FLOW FROM OPERATIONS	<u>(1,500)</u>	<u>(1,000)</u>	<u>(1,000)</u>	<u>2,500</u>	<u>500</u>
BEGINNING CASH	5,000	3,500	500	500	2,000
PLUS OR MINUS: NET CASH FLOW FROM OPERATIONS	(1,500)	(1,000)	(1,000)	2,500	500
PLUS: Other Cash Receipts					
From Borrowing			1,000		
Personal Contributions to Business					
LESS: Other Cash Paid Out					
To Acquire Land, Buildings, or Equipment		(2,000)			
To Pay Debt				(1,000)	
For Personal Use					<u>(2,000)</u>
EQUALS ENDING CASH	<u>3,500</u>	<u>500</u>	<u>500</u>	<u>2,000</u>	<u>500</u>

3. Bookkeeping Systems

Topics

Goals for a General Ledger

Chart of Accounts

Accounting Cycles

A General Ledger

A structured data base for financial activity

GIGO – Garbage In Garbage Out

Black Hole – Data goes in but it doesn't come back out or does not come back out in a meaningful way

A General Ledger Goals

Helps with tax prep – but not the same as automated tax prep as QB advertises

Cash Flow

Decision-making

- choosing between crops or markets

Best options for small business

Old fashioned manual system – Dome

QuickBooks - the difficulty is setting up the Chart of Accounts

Structure = Chart of Accounts

Assets

Liabilities

Equity

(Owner's Investment or Net
Assets)

Payroll

Use a payroll service!

- ADP
- Paychex
- Intuit
- Others