



The Dollars & Cents of RECORDKEEPING

Employing an effective recordkeeping strategy can help in more ways than one.

by *Kayla Jennings*

The late nights of backtracking expenses and income, the headaches of identifying to which entity those expenses belong and the seemingly endless conversations with the accountant are finally over — for now. As the 2017 tax season comes to a close, now is the time to evaluate recordkeeping methods from last year and to adopt new ones to increase efficiency for 2018.

It is not uncommon for tax season to prompt stress on the business side of a cattle operation, but the good news is it doesn't have to. Identifying and employing an easy to use recordkeeping system can make a world of difference for producers — not only from a tax standpoint but also from a managerial perspective.

Austin Duerfeldt, agricultural economist at the Kimmel Education and Research Center, Nebraska City, Neb., works with producers year-round to formulate the best form of keeping records for them. He says no two operations are the same, and it is important not to treat them as such.

The right fit

Just as operations vary, individuals vary in workflow

and expertise, as well. Fortunately, there is a plethora of tools available for producers to effectively maintain their records. Duerfeldt says it is not as important which method a producer selects as it is how well that individual is able to use the tool.

“It is more of finding a method that works best for the producer” he says. “Tailoring something to them is key.”

A common method among many is the standard filing cabinet. Folders are labeled to suit the rancher's needs and hard copies of files are placed in those folders to be analyzed at the end of the year. As a supplement to that, many utilize hard copy forms to record births, sale dates, feed logs, reconciliation logs and more.



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“There are hard copy ledgers available through the Extension service,” he explains. “It is just a matter of busting out the pencil and calculator.”

Duerfeldt does advise individuals who utilize this method to enact a security plan for themselves in case of fire or other damages. “Using fireproof safes and, maybe, digital records provide the protection and backup for you,” he advises. “By adding digital records you can have documents stored on an external hard drive, the cloud, and in your fireproof safe.”

For individuals who prefer employing software or newer technologies, there are several additional options available. “You just have to understand what the software is doing,” he stresses. “You can't just rely on it. If you understand the method of accounting and what is actually transpiring, I think software can be a really good tool.”

Duerfeldt says Microsoft Excel can be an excellent option for those comfortable with it. Like the traditional filing system, producers can set up several “sheets” to input the numerical values and easily utilize formulas to determine income, expense and more. Many Extension services also provide an Excel template for farmers and ranchers to use.

As many facets of life today are transitioning to digital systems, it is no surprise to see an uprise in this type of software. Duerfeldt actually wrote about this software in a recent article featured on CropWatch.unl.edu — Digital Farm Records Made Easy. He recognizes how paper files can stack up and be challenging to sort through at times, thus, identifying the merit in paperless recordkeeping. “Digital recordkeeping is a way to meet expectations of the IRS, save precious storage space in your home, and make life simple when reviewing transactions for both you and your accountant,” he says.

However, some questions do arise when transitioning to this method — is it legal, can it be tied to software and how should paper copies be handled? Duerfeldt assures producers it is legal. In fact, scanned documents are addressed in IRS Revenue Proclamation 97-22.

He goes on to explain how these digital files can be utilized with current software. Quicken and QuickBooks both feature an option to attached the scan or photo to the transaction within the program. This method makes keeping track of the supporting documents and connecting them to transactions much more time efficient.

The question of paper copies he leaves up to the person. “Some individuals feel more comfortable with keeping the physical paper copy within reach,” he notes. “Others will shred the paper copy once scanned. Neither method is wrong.”

He does recommend producers keep records for three years. First, the IRS requires the records be kept for three years from the date the original return was filed, unless the producer falls under certain other retention requirements specified by the IRS. Second, he says it is valuable from a business standpoint to view trends over the years to make proper business decisions, moving forward.

Beyond taxes

The question still remains: What is the advantage to going through all this effort to maintain quality records? After all, it can be time-consuming, and it is not entirely enjoyable for all. However, the “Farmers and Ranchers Tax Guide,” published annually by the IRS (publication 225), outlines several benefits to doing so.

First and foremost, it is absolutely imperative to have access to records to prepare tax returns and to support items reported on tax returns. In the event of an audit by the IRS, auditors will need access to all business records for inspection. The guide states the IRS can ask producers to explain



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an expense listed on the return, and having a complete set of records expedites that process.

As part of preparing the tax return, producers must identify a list of deductible expenses for the year. A farm or ranch can lend itself to a chaotic atmosphere at times. With so many moving parts, it is easy to forget what expenses were incurred during the tax year. If receipts are kept in a physical file or a digital folder, they increase accuracy on expenses in the end.

Keeping receipts also aids in identifying the source of an expense. As many farms operate as a sole proprietorship, it is challenging to distinguish the difference between a farm and a nonfarm expense without those receipts on file. Additionally, those records are critical when preparing financial statements. The guide specifies those include income statements, cash flow statements and balance sheets. It goes on to indicate those statements can be useful when working with the bank or creditors.

Perhaps the most important reason for accurate recordkeeping is to monitor the progress of the business. “A lot of my guys tend to think that recordkeeping is done purely for the tax portion of it,”

Duerfeldt notes. “But, you also need to keep information for managerial decisions, as well.”

Duerfeldt recalls some instances when producers were severely miscalculating their income and expense ratios. Miscalculation has sometimes cost those individuals big in the end, and poor record management is to blame. In addition to poor recordkeeping, relying solely on the records kept for taxes can create the same debacle.

For example, Duerfeldt worked with an individual whose row crop operation was struggling, but the cattle operation appeared to be thriving. At that time, grain prices were high and created a problem on that accounting side. As a result, the producer and Duerfeldt changed a few practices so the producer could account for the raised crops being used as feed. Those changes had no effect on tax numbers, but they organized the divisions of the operation more accurately — allowing for better decision-making.

“Tax returns alone can skew and mislead the reader on what exactly is happening on the farm,” he explains. By having a system that is more in line with an actual accounting system, the producer can do some business ratios and make decisions based on sound data.

Farmers and ranchers are faced with large business decisions each day. When faced with those decisions, many rely on economics to provide the best answer. If producers look to their records to make that decision and those records are inaccurate or skewed, their decision may end up as the wrong one. Ultimately, those events can result in an innocent mistake costing a considerable amount of cash.

At the end of the day, while recordkeeping does not top the list of enjoyable tasks, it can pay dividends when done correctly. “Having accurate records on hand is what allows farmers to make informed and accurate decisions moving forward,” Duerfeldt explains. **HW**