

The Farm Accounting Problem

A Practical Scheme by Which the Farmer Can Know Where He Stands Financially

By Edgar L. Smith

SOME one aptly remarked that considering the amount of talk about the weather it's a wonder no one ever did anything about it. Talk, talk, talk, but no action!

This is the way many feel about the farming situation. Everyone complains about inefficient farming methods but no one seems to be able to offer any practical solution. The great cry has been "apply business methods to farming" forgetting perhaps that farming is not only a business but also an art and a science—occasionally a pastime. In its aspect as an art it is as difficult to apply business methods as it would be to standardize portrait painting under the guidance of an efficiency expert or a certified public accountant. However, with certain reservations, farming, under the constantly increasing use of machinery, is becoming mainly a business and less an art; so it can profit by the experience of other industries which have only attained their high development through certain well defined business principles. Perhaps the most important of these is the keeping of accurate records of the main factors upon which success or failure depend, analyzing these records and basing future plans upon the recorded experience of the past modified by the best judgment obtainable.

The ancient and greatest of industries has been the last to recognize the advantage of the business methods that have been developed in the newer upstart industries of manufacturing, transportation and distributing. Farming, the backbone of our prosperity, of our very life, has been slow to break away from its great traditions, the traditions of the skilled husbandman who learned the art of farming from his father, and from his father's father, each succeeding the other upon the same or nearby lands, every inch of which they knew as only he can know a tract of land who has been born and raised on it, has heard the story of its past, has watched the crops follow upon each other in the round of years—some bountiful, others scant.

This has been the ancient tradition of agriculture, and still was in parts of the old world until the war put an end to the normal conduct of every peaceful pursuit. In the new world, a new tradition became established, the tradition of farming great areas of virgin soil, exhausting them and moving on to new land. A rough and ready farm practice grew up and flourished unhindered by any economic pressure. Both of these great traditions have been overturned by the Great War.

What is Wrong with Our Farms?

We need not concern ourselves at once with agricultural problems of the old world for our own problems are many and great. Even before the Great War, economic pressure was making itself felt upon the farmer. New areas of fertile land could not be had for the asking. The pressure of population drove the price of good land so high that fixed charges became a burden—reducing the margin of profit and lowering the standard of living to a point where the native American farmer has been displaced in many localities by the foreign-born willing to adopt a lower standard while the natives went into city industries.

There had been a constantly increasing exodus from the farm right up to the opening of the war. The war came at a time when farming was groping for the answer to its many problems, and it disturbed all the factors upon which American farm practice had been based. It has done the same with other industries; but in the case of other industries, it found them organized—those engaged in them had figures based upon accurate records with which to defend themselves against encroachment and ruin through unwise laws and regulation.

In dealing with the most important industry of all—farming—the law-makers have nothing to go by, no real data. When they try to establish a fair price for milk, for wheat, for potatoes, it is the middleman, the distributor who presents the figures and tells what the farmer should get. The farmer has no figures. He has kept no books, he has no evidence to present before the court of public opinion to defend himself against those from whom he buys his supplies and from those to whom he sells his products.

They keep books—oh, yes; they know that they could not stay in business a year if they did not. And now the farmer is awake to the advantages that are not his because he has not followed what has proved the only plan upon which a really successful business can be built up. Every successful business today has progressed through a constant knowledge of where it stands financially and a careful analysis of records which show where its profits come from and where it is sustaining losses. It is through constant vigilance, made possible only through intelligent records, that undue losses are forestalled and disaster avoided.

It is not only in this broader sense that farm accounts benefit the farmer. These general benefits will be derived only as the great majority of farmers keep accounts and keep them upon some standardized system that will make it possible to draw accurate conclusions

from a mass of data assembled from a large number of farms. If these remote blessings were all that a farmer could expect, the task of persuading him to break with tradition and become a business man in the modern sense would seem hopeless. But the first benefits will come right home to each farmer personally who gets lined up right on the proposition.

Farming as a Business

In the first place, his standing at the bank will be improved 100 per cent. Any banker will lend more freely to a man who can show a set of accounts. A great deal has been written about the inadequate credit facilities of farmers, but where, pray, is the merchant or manufacturer who can borrow money with no balance sheet, no inventory, no profit and loss statement to show his banker?

When a farmer keeps books, his credit will take care of itself up to the point that his enterprise deserves. Farm accounts solve the credit problem.

But more important than credit, is the question of profits. Farm accounts, properly designed, bring promptly to light those losses and leaks which if allowed to run, will eat deep into profits if they do not swallow them whole.

Then there are the experiments—the small ventures that every farmer undertakes. It is of the utmost importance to know in dollars and cents just what these amount to, and to know their proper relation to the rest of the farm operations. Costs and profits estimated for one department alone are often misleading. Get costs accurately—but fit them in with the costs and profits of the whole farm. Only in this way will the result be dependable. If this is done intelligently, it is often safe to expand a successful small venture rapidly into a main source of revenue. Complete figures give confidence, and rightly so.

Then there are the dealings with the creamery. If a group of farmers have accurate and complete figures to show that the price they get for their milk is too low, the creamery is bound to listen. They know that it is

FARMING is becoming ever more a business and less an art. But it has been the last industry to recognize the advantage of business methods. The farmer doesn't know what he is worth, what his income is, what his costs amount to or what they are for, where he is making money and where he is losing it, what it costs him to live, how much he must make to break even. He can neither buy nor sell nor borrow nor pay taxes with any secure knowledge that he is getting what he should get or giving only what he should give. He believes that he can not keep books, and in this belief is probably right. But—there is a way out, and this story points to it.

to their interest to have the farmers in their section prosper. But if everybody is guessing, they will guess with the best of them and will probably guess low.

These are some of the benefits of accounts and cost records; but they are not the every-day, year-in-and-year-out benefits. The greatest expense items in farming are the labor costs—man labor and horse labor. Nothing calls for closer study than the problem of finding the best distribution of man hours and horse hours. An analysis of these items every month and at the end of the year by a thoughtful farmer will point the way to the saving of many dollars; by arranging the balance between acres, live stock, rotation and man-power so that the men put in the highest possible percentage of their time in profitable work and the horses are kept busy the largest number of hours throughout the year earning money.

Next in importance is the matter of feed, both for work animals and other live stock. Feed prices are constantly changing and it is the man who knows just what it is costing him to keep his stock, and the cost of each item in the ration, who is in the best position to change his feeding practice in response to these changing conditions, and make a profit.

These are only a few of many ways that a farmer can improve his farm management and his profits by the careful study of accurate records intelligently analyzed. Others will occur to every farmer. But today there is still another reason why every farmer must keep account, and that is the income tax report that he must file.

To make this out he must keep accounts of some kind and the time is ripe therefore to help him keep a set of records that will not only meet the income tax requirements but will also point out to him, along the lines suggested above, how to organize his business, obtain better credit at the bank, and make larger annual profits, all through the intelligent use of practical records sensibly analyzed.

"It Can't Be Done"

Every business man will accept all this as axiomatic and most up-to-date farmers will agree that it would

be a good thing, but they will add: "Have you ever tried to keep a set of books on a farm, making your records after a hard days' work in the field?"

And right here is the stumbling block. Farmer's can't keep books. There is no argument about this. Any system of farm accounts that calls for bookkeeping by the farmer himself, is doomed to failure before it starts, except in a few isolated cases. And in these cases it will generally be found that the man who keeps the books is a better bookkeeper than he is farmer. If he succeeds at farming it is because he has a first-class farmer working for him.

The mental equipment and training of a first-class farmer are radically different from the attributes that are called for in a first-class bookkeeper and accountant. But that is not the sum total of the difficulties in the way of the general introduction of accounting on farms. The truth is that the trained accountant, the man who has spent his life meeting the wide variety of accounting problems presented by modern industrial organization, will fall down completely in the face of the special problems presented on a farm. It has happened again and again. The reason is that the transactions on a farm compare in complexity with those of very large industries which have a high proportion of interdepartmental business, and to this is added a continual shift of labor and equipment from one department to another. When to this is added the fact that it is impracticable to weigh, measure and record all the supplies used, the problem appears in its true proportions. An accountant will suggest methods by which all these matters may be controlled and recorded, but it will be found that the cost of keeping the records will exceed their value because of the relatively small total business of the farm.

The five years of study which my organization has devoted to this problem, at close range, shows that it resolves itself into three parts: First, to assemble the really valuable data of farm operation in a form that would be of practical value to the farmer; second, to reduce the records on the farm to the utmost of simplicity; finally, to obtain really valuable results at such a low cost that every farmer can afford it.

Starting with the unescapable premise that a farmer cannot keep books or, if he does, can rarely analyze them in a manner that will develop really valuable information about his farm, the first principle that we established in our work was to take all the bookkeeping off the farm.

How Can It Be Done?

The farmer is regarded as the manager of a plant would be regarded in a manufacturing operation. He is supplied with a simple set of forms upon which the daily transactions in cash, labor and supplies are recorded. The forms which he uses are bound in such a way that he keeps a copy of all his records, mailing the original to a bookkeeper.

The question arises then, as to who is to be the bookkeeper? In our work to date, we have dealt principally with business men who own farms, because they quite naturally have been leaders in the movement for better farm accounting, and it frequently happens that they have in their offices a bookkeeper who can be instructed in the proper method of keeping farm books. But frequently, even when such bookkeepers are available, the owners prefer to have their accounts kept in our own office, because unless a bookkeeper is familiar with farm practice some very absurd mistakes are made.

The best combination is a man familiar with bookkeeping who also understands farm practice, so that he may properly interpret the records made by the farmer, even if the latter are not as complete as would be desirable. Even when the posting is done by a bookkeeper we frequently send our own farm accountant out at the end of the year, to close the books and draw off analyses.

In picturing the future development of farm accounting we can see several lines along which it can progress.

The first line would be through country banks. No set of men are more interested in improving the farming practice of their community than country bankers. They all employ bookkeepers who are familiar with farm practice. They can afford to encourage their farmer customers to have their books kept at the bank and can offer them a direct benefit as they can more safely make loans to such farmers.

Another line along which this work can develop is through individual bookkeepers in country towns, making a study of it and keeping the books for a group of farmers.

Then there are the Federal Farm Loan Associations, which have an interest and a right to be posted on the transactions of their borrowing members, and there are other farmer associations that might take the subject up.

As one good bookkeeper can keep the accounts of about ten farms, the cost to each farmer need not be excessive, though farmers who have not kept any records will undoubtedly be surprised at the amount they can really afford to pay to get good records and analyses upon which to base their future plans.