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Farm Filings Tax Series

Session 1: Introduction to Record-keeping

Presented by

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Our FIND YOUR ROUTE search tool helps farmers in the Chicago foodshed find programs and services to meet the needs of their growing farm businesses.



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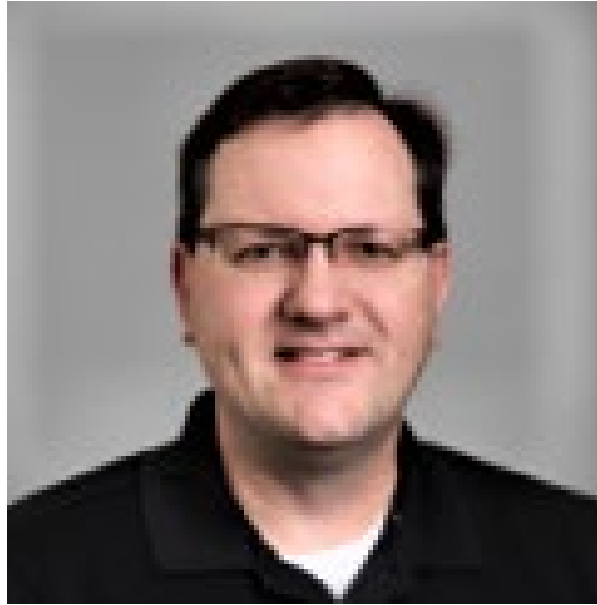
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INTRODUCTION TO RECORD-KEEPING

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www.compeer.com / (844) 426-6733



BUSINESS STRUCTURES

- **Sole Proprietorship** (owned by one person)
- **C-Corporation** (may deduct fringe benefits for owners, flat tax rate, double taxation)
- **S-Corporation** (profits and losses pass through to the shareholders)
- **Partnership** (flexibility, avoids double taxation)
- **LLC** (hybrid entity combines flexibility of a partnership with limited liability protection of a corporation)



CASH VS ACCRUAL ACCOUNTING

- **Cash Basis Accounting** – revenue is recognized when money is actually received. Expenses recognized with they are paid.
- **Accrual Basis Accounting** – revenue and expenses are recorded when they are earned, not when money is actually received or paid.

*****Accounting method is stated on tax return**

CHART OF ACCOUNTS

What is a Chart of Accounts?

♦ Checking - Test Bank	Bank	29,919.40
♦ Undeposited Funds	Other Current Asset	0.00
♦ Accumulated Depreciation	Fixed Asset	0.00
♦ FA- Building	Fixed Asset	0.00
♦ FA- Dairy Cattle Purchased	Fixed Asset	0.00
♦ FA- Equipment	Fixed Asset	44,161.00
♦ FA- Home	Fixed Asset	0.00
♦ FA- Improvements	Fixed Asset	0.00
♦ FA- Land	Fixed Asset	0.00
♦ FA- Vehicles	Fixed Asset	0.00

Balance Sheet Accounts:

- Assets (checking, savings, fixed assets, co-op stocks)
- Liabilities (notes payable, loans, payroll tax payable)
- Owner's Equity / Retained Earnings

Income Statement Accounts:

- Revenues (sales, patronage refunds, rental income)
- Expenses (feed, vet, utilities, supplies, repairs, fuel)

BALANCE SHEET

What is a Balance Sheet?

- A snapshot of your current financial situation.
- Everything that is owned, everything that is owed.



What you can learn from a
BALANCE SHEET.



A Balance Sheet is a snapshot of your financial situation. It describes what is owned, what is owed and the relationship between the two at one moment in time.

Current Assets are cash or anything you can convert to cash within the normal operating cycle of your business (usually one year)
Examples:

- Cash and savings
- Marketable securities
- Stored grain and feed
- Market livestock
- Investment in growing crop and prepaid expenses
- Accounts receivable

Current Liabilities include all unpaid bills and obligations due within the next 12 months.
Examples:

- Accrued interest
- Accounts payable
- Income and real estate taxes
- Operating loans
- Credit card debt
- Principal portion of term debt due in the next 12 months

Intermediate Assets are those that take more than a year to use up or turn to cash.
Examples:

- Breeding livestock
- Machinery
- Retirement accounts
- Non-marketable securities
- Cash value of life insurance

Intermediate Liabilities are debts that will pay off within 10 years.
Examples:

- Machinery loans
- Life insurance loans
- Car loans
- Student loans

Long Term Assets are typically land and building investments that are held long term. Also may include longer term contract receivables such as the sale of a farm on contract.

Long Term Liabilities are typically loans on land and buildings financed for a term longer than 10 years. Any debts with terms of repayment longer than 10 years.

Net worth is your total assets (TA) - total liabilities (TL). This tells you how much cash you would have if you sold all of your assets and paid off all of your debts.

INCOME STATEMENT

What is an Income Statement?

- Revenues and Expenses from operating and non-operating activities.
- Shows a profit or loss for a certain period of time.



The Numbers Coach

What you can learn from an INCOME STATEMENT.



Brush Farms Income Statement, Fiscal Year 20XX

Cash Farm Income	
Corn	33,600
Milk	256,000
Cull Stock	18,480
Misc. Livestock	1,840
Govt payments	3,000
Gross Farm Income	\$314,920
Cash Farm Expense	
Seed	8,820
Fertility	20,250
Weed & pest treatments	5,265
Crop insurance	3,510
Custom hire - crops	5,625
Feed	79,987
Breeding	3,200
Veterinary	9,596
Supplies	19,992
Marketing	5,600
Fuels & oil	6,000
Repairs	10,000
Custom hire - other	6,020
Labor	15,000
Land taxes	4,000
Farm insurance	2,000
Utilities	7,200
Professional services	3,000
Interest on loans	26,628
Total Cash Farm Expenses	\$241,693
Net Cash Farm Income	\$73,227
Accrual Adjustments	
Crops and feed	1,156
Market livestock	-
Accounts receivable	(3,000)
Hedging accounts	-
Other current assets	-
Prepaid exp. & supply	(1,000)
Growing crops	-
Accounts payable	-
Accrued interest	400
Total Inventory Change	\$(2,444)
Net Operating Profit	\$70,783
Depreciation	
Machinery	17,200
Titled vehicles	1,500
Bldgs & improvements	4,000
Total Depreciation	\$22,700
Capital Adjustments	2,000
Net Farm Income	\$50,083

Gross Farm Income: The sum of all receipts from the sale of crops, livestock and farm-related goods and services, as well as any direct payments from the government.

Accrual Adjustments: Accrual adjustments help show an operation's actual profitability per crop year by accounting for changes in short-term accounts like inventory, market livestock and prepaid expenses. For example, accruals will take into account fluctuations in income and expenses from fertilizer purchased in one year but used in the next or delaying the receipt of a grain check until January for tax purposes. Accrual income statements allow for that grain inventory to be included as income in the year it was produced, not sold.

Depreciation: While not a cash expense you'll see in your bank account, depreciation is a real cost of your operation. You'll need to account for depreciation on your machinery, vehicles, buildings and improvements. Eventually, all of these assets will need to be replaced to keep your farm operating. Unlike on tax returns, depreciation on the income statement is a set percentage of the asset.

Capital Adjustments: Capital adjustments account for any purchases or sales made outside of the day-to-day operating revenue and expenses. If equipment or land was bought or sold, record the total change in your capital here.

Net Farm Income: The bottom line number — did the farm operation make money last year? Positive earnings are used for living expenses, disbursements to owners or are reinvested back into the operation for future growth.

Takeaway: If the operating rate increases or expenses rise faster than income, look for ways to reduce costs such as releasing unprofitable rented acres or increasing income by focusing on marketing opportunities.

TO LEARN MORE:

Contact your local financial officer for more information. Call Compeer Financial at (844) 426-6733 or visit us online at compeer.com.





REPAIR VS CAPITALIZE

Questions to ask yourself:

1. **Is the expense necessary and routine? Is it in the same working condition as it was prior to the repair? Did you keep it in operating condition for normal use?**
 - Then it is a repair.
2. **Is the expense for betterment, adaption or restoration? Betterment is materially increasing the value. Adaptation is changing it to a different or new use. Restoration is returning it back to normal state of operation after falling into a state of despair.**
 - Then it is capitalized.



ACCURATE ACCOUNTING

Documents needed

- Monthly bank statement
- Duplicate checks, check images, or checkbook register
- Credit Card Statements
- Invoices that need to be split
Example: Co-op bill
- Receipts for items paid in cash
- Deposit receipts
- Closing Statements for Land Purchases or Sales
- Sales Agreement / Financing Agreement for Equipment and Vehicle Purchases
- Prior Year Ending Loan Balances
- Un-cleared Checks/Deposits for Bank Accounts
- Capital Asset report
- Prior Year Tax Return



ORGANIZING RECORDS

Filing System:

- Keep it simple
- Tailor to fit your farm business needs
 - + By Vendor
 - + By Month
 - + By income / expense account
 - + Capital Purchases / Capital Sales
 - + Employee / Custom Hire
- Computer Records – make sure to keep a backup file in another location.
- Filing Cabinet
- Keep day-to-day information easily accessible



DOCUMENT RETENTION

1. Keep records for 3 years (if 4 & 5 below do NOT apply to you).
2. Keep records for 3 years from date you filed original return or 2 years from date you paid tax. (which ever is later)
3. Keep records for 7 years if you file claim for loss from worthless securities or bad debt deduction.
4. Keep records for 6 years if you do not report income that should be.
5. Keep records indefinitely if you do not file a return or if you file a fraudulent return.
6. Keep employment tax records for at least 4 years after the date the tax becomes due or paid. (whichever is later)
7. Keep records relating to property until the period of limitations expires for the year in which you dispose of the property.



TAX RETURN SUPPORTING DOCUMENTS

Tax Return/Supporting documents:

- Can be audited up to 3 years
- If large errors are found, IRS can go back a total of 6 years

Examples of Supporting documents:

- 1099's
- K1's
- Auto mileage logs
- Bank statements
- Business credit card statements
- Income documents/stubs
- Expense receipts/invoices
- Brokerage statements
- Hard copy of computerized records
- W2s

TAX RETURN AND SUPPORTING DOCUMENTS CONTINUED...

Capital Purchases / Sales

- Purchase invoices
- Contracts
- Closing statements
- Any other statements that document a purchase need to be kept for 7 years after the item is sold or disposed of.
 - + Examples of capital purchases: equipment, land, home, other improvements (remodeling, conservation, fencing, land clearing, new wells, etc).



EMPLOYEE FORMS

Federal Form W-4

- Needs to be kept at least 4 years after filing the 4th quarter for the year.

State Form WT-4

- Needs to be kept at least 4 years after filing the 4th quarter for the year.

Federal Form I-9

- Needs to be kept for 3 years after date of hire or one year after employment ends, whichever is later.

A large, light blue outline of a house with a chimney on the left side, set against a dark teal background. The house has a simple, modern design with rounded corners and a flat roof.

QUESTIONS?

A short, horizontal yellow line located below the word "QUESTIONS?".

THANK YOU!



*Find upcoming events at
routes2farm.org*



*Find resources at
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