University of Idaho
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A Checklist

Selecting an Accounting System

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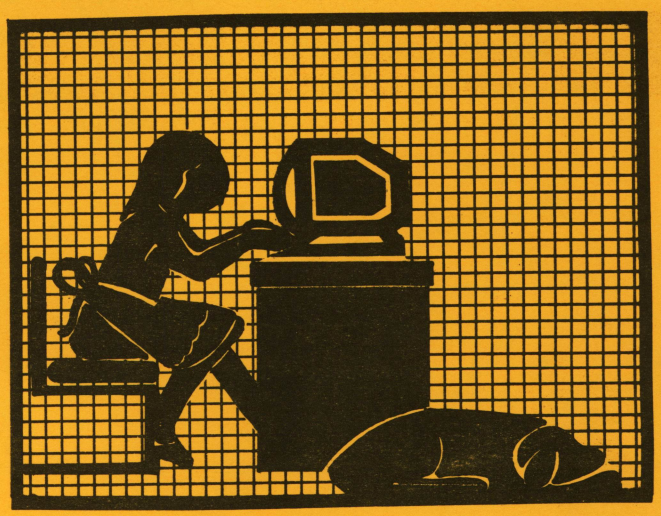
The reason most often given by farmers and ranchers for purchasing a microcomputer is to handle their bookkeeping needs. Many other reasons fall in second and third place, but automating their accounting is usually the primary reason for the purchase of a computer system. Many farmers and ranchers feel like a duck out of water when they are confronted with a glib computer salesman, however, as he rapidly extolls the worth of his product.

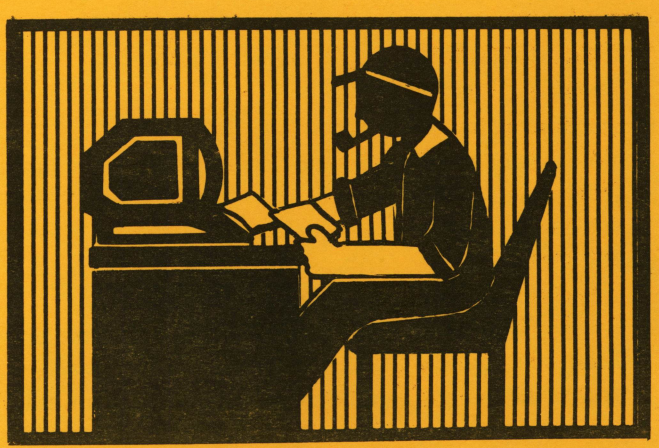
In evaluating accounting programs, all the features of a good, hand record system or bookkeeping service from an accountant should be included in the program. Major things to consider (and think through before purchasing) would include the following:

Type of System — Is single or double entry the preferred system? Greater flexibility and accuracy is usually possible with the double entry system, but coding may be more complex.

Cash or Accrual accounting is another factor. Some systems will allow the user to use both methods, while other systems use one method or the other. Essentially, a **Cash** system records all entries when money changes hands, not when the transaction occurs. the **Accural** system records income and expenses when they occur, regardless of whether dollars are exchanged or not at that point. While most farmers and ranchers use the **Cash** system for tax purposes, for management purposes the **Accrual** system provides much more accurate information.

The degree of management information available from a system can be gauged by the **Chart of Accounts.** This determines the degree of detail and flexibility of reports that can be gained from the system. Many systems have a preliminary **Chart of Accounts** that can be modified or increased. Limits on the number of accounts and/or the number of digits per account will also affect the flexibility of the system. One system may allow a five digit code for expenses. For example, using codes between 80000 and 89999 would allow for more detail than a three digit system of expense codes between 800 and 899. Some systems also limit the number of active accounts to 100, while others do not limit accounts.





The ability to allocate costs to **enterprises** is an important management function. The **Chart of Accounts** may allocate feed costs to several different enterprises. Also, income or expenses in one enterprise may need to be transferred to another such as the transfer of corn from a crops enterprise to a livestock enterprise for feed.

Entering the various **transactions** will claim the greatest share of time. Remarks and quantities may or may not be part of the entry system. The more information available, the more it can be used to manage the operation. One example is totaling the bushels sold and computing an average price. Since transactions take up storage space, some systems limit the number of transactions per period, or only carryover totals. This makes the audit trail difficult and limits the amount of management information that can be extracted.

The amount of **Disk Storage** is the single most limiting factor to accounting systems. If your records are on three or four diskettes that have to be swapped back and forth to do periodic updates, the process becomes quite slow and can be aggravating. If an operator's records are of any size or complexity, the investment in a hard disk with its huge storage ability could well be worth the cost.

The number and kind of **reports** that can be obtained are as important as what goes into the system. In addition to printing (and screen display) of **journal entries** and account codes, the program should also be able to provide a **Balance Sheet, Income (Profit and Loss) Statement** and a **Cashflow Statement**. Some systems, in addition, will generate enterprise reports and give budgeted vs. year-to-date figures. **Cashflow** is important for forward planning. This feature is included in some systems or can be done easily on a spreadsheet program.

While no system is going to cover **tax preparation** completely, some are able to generate a Schedule F, while other systems provide the information in a manner that simplifies completing the forms. Even the better accounting systems won't eliminate the need for sound tax advice.

Landlord-Tenant Statements are provided with some packages. If some land or livestock is leased or rented, this would be a desirable feature.

Frequency of Reports may also be important. Some systems only allow the Balance Sheet or P & L to be done at year's end. On other programs, they can be printed as often as desired.

Other features to be considered should include check writing and payroll, vendor names and addresses, employee withholding and multiple year comparisons. In any case, you should examine several systems. Be sure to take along both your accountant and the person who will operate the system for you.

The following checklist was compiled by a group of Ohio farmers who all own microcomputers. If an accounting system met every requirement listed, it would be an excellent system. No current accounting system has all the features listed, although several come close. Before examining accounting programs, go through each section, and highlight those features most important to your needs. Then compare the list to what is available.

Accounting System Checklist*

General Features

1. Menu driven systems.
2. System verifies proper disk in use.
3. Adequate instruction on screen during use.
4. "Help" feature to provide further instruction.
5. Cash and accrual accounting.
6. Chart of accounts — user definable names.
7. Chart of accounts — user definable numbers.
8. At least 250 accounts.
9. Account names later added.
10. Enterprise account available for more than a 12-month period.
11. At least 99 enterprises.
12. Enterprises can be further subdivided.
13. Intrafarm income/expense transfer capability.
14. General ledger allows for two quantities (example — head and pounds) besides dollars.
15. Allows errors correctable in past accounting month.
16. Purchase of resale items cost automatically carried to next year.
17. Error handling instruction feature.
18. Vendor file with addresses.

Reports Printed

1. Transaction listing in account sequence.
2. P & L statement at least quarterly.
3. Cashflow budget comparison to actual at least quarterly.
4. Balance sheet at least quarterly.
5. Assets on balance sheet lists both cost basis and market value.
6. Schedule F tax report.
7. Current period and year to date P & L.

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*Compiled by the Computing Farmers of Ohio user group and printed in *Agricultural Computing*. Vol. 4, No. 5, May 1983, published by Doane-Western. Reprinted by permission.

8. Checkbook reconciliation.
9. Summary of loan activity and balances.
10. Monthly payroll listing and payroll tax liability.
11. Comparative balance sheets up to 5 years.
12. Tax planning worksheet at any time.
13. Landlord settlement reports.
14. Farm Analysis annually.
15. Checkwriting capability.
16. Capital purchase and sales integrated to depreciation schedules.
17. Tax depreciation schedule according to current tax laws.
18. Optional management depreciation schedule for the business analysis.
19. Inventory tracking.
20. Tax, balance sheet, asset list, enterprise, payroll, depreciation, inventory, analysis, payables and receivables integrated in the system.
21. Payroll calculations automatically.

Overall Farm Analysis

1. Highlights compared for 5 years.
2. Investment includes value farm assets average of beginning and end of year.
3. Acres listed as owned, cash rented, share rented, tillable, operator's share.
4. Gross income and profit calculated on accrued basis from general ledger and balance sheet.
5. Fixed expenses include depreciation, interest, taxes, insurance, building repairs, lease or rent.
6. Variable expenses include all other cash expenses.
7. Interest on equity = (farm assets × input interest) – interest paid.
8. Return to unpaid labor and management = Net Farm Income – interest on equity.
9. Calculates rate earned on farm assets.
10. Calculates rate earned on farm equity.
11. Calculates percent of each expense of the total gross.
12. Calculates machinery investment and cost per tillable acre.
13. Calculates gross crop production per tillable acre.
14. Calculates yield based on operator's share.
15. Size and type of livestock enterprises.
16. Capital debt repayment capacity.

Crop Enterprise Analysis

1. Lists acres in enterprise on owned land and cash rented or share rented arrangement.
2. Enterprise overhead cost split automatically per acre, per gross dollar of income or by individual input.
3. Calculates return per bushel including hedging profits.
4. Calculates each cost on per acre, per bushel operator's share and of gross.
5. Calculates machinery cost per acre.
6. Calculates break-even prices and yield.
7. Compare enterprise on owned, cash rented or share rented acres.
8. Investment per tillable acre.

Livestock Enterprise Analysis — Calculates:

1. Units produced of various livestock.
2. Gross income.
3. Pigs per litter, milk per cow, etc.
4. Average selling price per unit of product.
5. Average selling weight per animal.
6. Value of feed fed.
7. Returns per dollar worth of feed fed.
8. Feed cost per cwt of production.
9. Pounds of various types of feed to produce cwt.
10. Each cost per cwt produced, per animal, percent of gross.
11. Machinery and equipment costs.
12. Break-even price per cwt.
13. Debt per cow, sow, etc.

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