

# Canterbury Chamber of Commerce

*Agricultural Bulletin*

## FARM ACCOUNTS

*Prepared in conjunction with Canterbury Agricultural College, Lincoln, and  
Economics Dept., Canterbury College*

BULLETIN

CHRISTCHURCH, MARCH, 1936

No. 81

Farming is to-day essentially a business, and in order to meet the present world-wide competition in marketing his products, the farmer must run his farm on business lines. Effective account keeping is indispensable to all sound business. For the farmer, accounts furnish the only test of the profit-earning capacity of his farm, either over a series of years or in any particular year, and the only test as to whether any particular venture on the farm has paid or not. Accurate accounts will enable him to watch and anticipate both his receipts and expenditure, and will provide a definite statement of his financial position at least once a year, which will greatly strengthen his hands should he be seeking accommodation from his banker. This Bulletin will outline a simple method by which the farmer can keep his monetary accounts, and at the same time record the data necessary for future analysis of these accounts.

### First Necessity—An Opening Balance Sheet or Statement of Assets and Liabilities.

Having first of all fixed a suitable date for commencing the year, a statement should be prepared showing on the left-hand side, under the heading of Liabilities, all money owing, comprising farm mortgage, bank or stock agency overdraft, if any, and ordinary trade debts; and on the right-hand side, under the heading of Assets, particulars and value of land and improvements, implements and tools, live stock, produce, investments, cash in hand or at bank, and amounts due from sales. The amount by which the total of the assets side exceeds the total of the liabilities side represents the amount of capital owned by the farmer at the date the balance is taken. An example, in the form of an opening Balance Sheet, is given below:—

Provided each item is accurately and conservatively valued, and all items are included, the above statement sets out the financial position of J.H., and shows that at the 1st July, 1929, he was worth £8,904.

**Methods of Valuation.**—All valuations should be conservative, and due allowance must be made for depreciation. In the case of stock that are required for the running of the farm, a fixed or standard value per head should be adopted and adhered to from year to year, unless it happens that the character or quality of the stock held has altered materially, in which case some adjustment should be made.

**Land.**—The land should be recorded at a conservative market value, and should remain at this value from year to year, unless permanent improvements, which add to the producing value, have been effected.

**Buildings, Implements and Plant.**—These should be depreciated each year according to their probable life. Buildings, which may be expected to last 40 years should have 1/40th of their value written off each year, with corresponding reductions for shorter periods. Implements such as ploughs, which may be expected to last 20 years, should have 1/20th written off each year, but binders and tractors, which wear out quickly, should have 1/10th to 1/5th written off each year. No implement should be written down below the minimum price that it might be expected to realise at a clearing sale. In the case of a farmer commencing accounts, and making his initial valuation, buildings can usually be estimated at their age value and implements can be brought in at clearing sale values.

Lists should be made of all buildings, implements and plant, and revised each year by cancelling items withdrawn and including additions during the year. Sundry tools can be valued at a lump sum, e.g., £20, and kept at that figure from year to year.

**Live Stock.**—Lists should be compiled of all live stock on hand at July 1st, or the date selected for the annual balance, and standard values adopted for each class of stock.

### FARM BALANCE SHEET OF J.H. AT JULY 1st, 1929.

LIABILITIES		ASSETS	
	£		£
Farm mortgage	8,400	Farm Property—	
Wages due to employees	50	Land, 1,000 acres	13,000
Accounts owing	111	Buildings	1,000
	161		14,000
	8,561	Implements—	
Capital, being excess Assets over Liabilities	8,904	Plant and tools, as per list	300
		Motor-car	150
			450
		Live Stock—	
		Horses, as per list, 7	140
		Sheep do. 1,400	1,580
		Dairy cows do. 10	84
		Beef cattle do. 97	520
			2,324
		Produce—	
		O.S. chaff, 73 tons	219
		Bags, seeds, manure, &c.	49
			268
		Cash—	
		On deposit at call	300
		At bank	50
		In hand	5
			355
		Money due from sales	68
			£17,465
			£17,465



This, of course, does not represent his net profit for the year. In order to arrive at the farming profit, personal and household expenditure, including farm produce used, must be added to the above figure of £339.

The closing Balance Sheet for one year is the opening Balance Sheet for the next year.

#### The Bookkeeping Year.

The annual balance date should be fixed at the end of the farming year, when most of the products of the farm have been sold, and the expenses for the year's operations paid. There are then fewest outstanding accounts and valuations to make. It would thus ap-

pear that most farmers' years should commence on some date between May and September. The later date is preferable for fruitgrowers, or for sheep-farmers who consign their meat and wool abroad, and the 30th June is the most suitable for the majority of farmers in Canterbury.

#### More Complete Accounts.

The procedure outlined is by no means a complete system of book-keeping, but it will provide the data upon which a proper set of farming books can be compiled when required. While most farmers realise the advantages of keeping accurate records of their transactions, they cannot be expected, after working on the land all

day, to settle down to elaborate book-keeping at night. For this reason, many farmers seek the assistance of experienced public accountants, and, in the case of a moderate-sized farm, the cost of preparing complete farm accounts, including a Balance Sheet, is very reasonable in comparison with the benefits derived.

In those instances where it is required by law to furnish returns of farming income, it is unquestionably advisable to have proper books written up or regularly supervised by a public accountant.

Farm costing, which consists of an analysis of farm accounts, will be dealt with in future Bulletins.

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This Bulletin is a reprint, made at the request of subscribers, of Bulletin No. 8 issued in February, 1930. Stock values remain on the basis set out in the original bulletin and may have to be changed to bring them in accord with the altered conditions since that date.

Since the publication of Bulletin No. 8, the subject has been further covered in No. 21 entitled "Farm Budgetry" and No. 24 entitled "Farm Accounting Associations." In addition, a text book on practical farm bookkeeping has been published and account books with instructions in which the farmer can write up his own accounts have been made available. If the advice given in the last section of the bulletin is followed and a Balance Sheet and Profit and Loss Account is prepared by a public accountant or by an accounting association, data will be obtained which will make it comparatively easy to analyse the accounts, and further information re costs and returns obtainable from the various branches of farm operations, and budgeting of costs and returns for future years, may be determined.

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Copies of this Bulletin may be obtained from the Secretary,  
Canterbury Chamber of Commerce, P.O. Box 187, Christchurch.

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