

Developing Record-Keeping Skills Through SAE

WE DEVELOP many skills as young people that we use throughout the rest of our lives. Examples include our ability to communicate effectively, to get along with others, and to use the knowledge we gain as students. Financial and record-keeping skills developed through supervised agricultural experience programs will also provide us with long-term benefits.



Objective:



Identify and explain record-keeping skills used in student SAE programs.

Key Terms:



assets

balance sheet

cash-flow statement

depreciation schedule

diversify

expenses

inventory

liabilities

liquidated

production records

profit-and-loss

statement

receipts

Record-Keeping Skills

Keeping accurate records of your supervised agricultural experience program is one of the most important life skills learned in the entire SAE experience. Good records are valuable to assist in determining if the enterprise is profitable and worth the time spent on it. When you become an adult, the skills learned in this area will help you in creating a financial plan for your family.

Six reasons for keeping accurate records on an SAE program are:

- ◆ Financial analysis of the enterprise for cash-flow and management decisions

- ◆ Improvement of student money-management skills
- ◆ Ability to see financial progress over several years
- ◆ Information for income tax returns
- ◆ Information for any type of loan application
- ◆ Evidence needed for FFA awards and degree programs



FIGURE 1. Accurate record keeping is essential in an SAE program.

Record keeping is used throughout life. Keeping records on an SAE program helps students learn these skills at a young age and prepares them for their adult lives.

RECORD-KEEPING SYSTEMS

There are several types of systems in which SAE records can be kept. Many states have developed record books specifically for the students in those states. While some differences exist, the record books from different states have many of the same components. With the rise of technology, computerized record books have been developed in many areas. These computerized record books perform the calculations and maintain neatness. However, students need to comprehend how the calculations were made so that they will understand how to improve their financial picture in the future. Written notes of actions and transactions help in entering accurate information on a regular basis.

Understanding the basic principles and procedures of agricultural accounting will help you set up and maintain a good system of records. A complete record system should have the following components:

- ◆ Inventory
- ◆ Depreciation schedule
- ◆ Balance sheet
- ◆ Receipts
- ◆ Expenses
- ◆ Profit-and-loss statement
- ◆ Cash-flow statement
- ◆ Production records
- ◆ Accounts payable/receivable

Inventory

An **inventory** is a record of all assets and their value at a certain time. An inventory is important because as you buy or sell products, your inventory changes. You may have very little inventory at the beginning, but as you purchase animals, equipment, tools, or supplies, you may have a significant amount of money invested in inventory by the end of the year. An inventory could be **liquidated**, or sold off, to generate cash for your business; therefore, it is an important financial asset.

An inventory is calculated by identifying the different categories of items you have, counting the number in each category, and giving each item a value. If you had a cattle SAE, your inventory would include the number of animals you owned and how much they were worth at that time. A crop project inventory would include the amount and value of any crop stored but not yet sold at the time of the inventory. A student who made and sold birdhouses would include the number and value of any unsold birdhouses at the time of the inventory. Inventories are to be taken at the start of the project year, usually January 1, and at the end of the project year, usually December 31. In reality, an inventory is performed only once per year, as the values for the year-end inventory should be the same as those of the beginning inventory for the following year.

Depreciation Schedule

A **depreciation schedule** identifies capital items that lose value over their useful lives. The schedule distributes the cost of each item over the life of the asset. If you purchase a new lawn mower for \$1,000, it is understood that the mower will not be worth as much nine years from now. It may be nearly worn out and worth only \$100. Rather than charging your business the full \$1,000 in the first year, you can spread the cost of the mower over its useful life. In this case, that would be about \$100 each year. Different methods are used for calculating depreciation.

Balance Sheet

A **balance sheet** (net worth statement) is a listing of the entire assets and liabilities of the business or individual for which it is developed. **Assets** are items you own. They are listed on one side of the page as current assets, intermediate assets, and long-term assets. Current assets are items that are easily used or sold, like cash in a bank account or feed on hand. Intermediate assets are items like equipment, breeding animals, or other assets intended to be used over multiple years. Long-term assets are land, buildings, or other items that have lives longer than 10 years. **Liabilities** are financial obligations you owe someone else, such as outstanding bills you have not yet paid or the balance due on a loan to a bank or someone else. Liabilities are also divided into current, intermediate, and long-term categories. To calculate net worth, simply subtract total liabilities from total assets.

Receipts

A record of **receipts** includes information on any cash sales or other income related to your business throughout the year. Details such as to whom each sale was made, the total

value, and the date are important. A student in a placement SAE may enter this information in a wage/labor summary and itemize gross pay minus all deductions and withholdings.

Expenses

A record of **expenses** includes information on all costs associated with conducting the enterprise. Maintaining an accurate record of expenses is very important, not only for an accurate picture of the profit or loss of the business, but also for tax purposes. If you are paying taxes, your expenses lower your total tax liability. Always keep documentation on all expenses.

Profit-and-Loss Statement

A **profit-and-loss statement** uses the total receipts and total expenses to show how much money the business made or lost. Changes in inventory are considered. A profit-and-loss statement is calculated in the same way as a budget except a profit-and-loss statement uses real numbers, while a budget shows what was expected to happen.

Cash-Flow Statement

A **cash-flow statement** is a record of the cash coming in and going out of the business.

Production Records

Production records are records kept on all production enterprises. Production records are used in crop and livestock SAEs to track all aspects of producing the crops and animals. Planting and harvest dates and information, as well as practices used to grow crops, are included in crop record books. Careful notes and observations are recorded for the entire growing season to provide information for use in making management decisions. Livestock production records include breeding, birth, and weaning information for each animal; notes and observations regarding animals; death loss information; and details of sales and purchases.

Accounts Payable/Receivable

Accounts payable/receivable are records of short-term expenses or income. If you purchased veterinary supplies and would be billed for them later in the month, you would have an account payable. If you sold five birdhouses to someone who has yet to pay you, you would have an account receivable. An accurate accounts payable/receivable statement makes sure you pay your bills and others pay you!

PRACTICING RECORD-KEEPING SKILLS

Once you understand how to use the different sections of a record book, you are ready to start maintaining it! A record book for your SAE program is usually started at the beginning of the calendar year. Record book entries should always be written in pencil in case corrections are needed. Neatness will pay off in the end, so carefully make your entries so that they can be read by anyone. If you are using a computerized record book, it may be helpful to have a log-



ON THE JOB...

CAREER CONNECTION: Accountant

Do you like numbers? Do you enjoy solving problems and analyzing financial information? Accountants provide valuable services to all types of businesses, including agricultural businesses. Agricultural accountants help farmers and agribusinesses use financial information to make management decisions. “Is this a good year to buy a new tractor?” “What can I do to lower my tax liability for next year?” Your accountant can help you answer those questions!

book or calendar where you can jot notes about your enterprise. You can then refer to these notes when entering information in the computer.

To start the record book, budgets are developed for the coming year that show the potential profit from your enterprise. Your beginning inventory is identified and listed. You should complete the balance sheet for the beginning of the year. A depreciation schedule should be completed if you own any depreciable items.

Once setup of the record book has taken place, record keeping will be much simpler if you make regular entries into your record-keeping system. If you have a lot of activities going on in your project, it may be a good idea to update your record book every few days. Making weekly entries may be enough for others. Never wait too long to make entries, as you will forget important information that should be recorded. Helpful tools may include a calendar that you note actions on or a time sheet or paycheck stub if you are a placement student. Maintaining a quality recordbook takes discipline and effort, but doing it a little bit at a time while your actions are fresh in your mind is easier than trying to remember something you did two months ago and becoming overwhelmed.

When closing out the record book at the end of the business year, usually December 31, total all expenses and receipts, inventories, and depreciation. You will be able to complete your year-end balance sheet and profit-and-loss statement based on this information. Many record books contain analysis information that allows you to compare your profitability or efficiency with that of other producers or workers. Different types of record books may analyze different information.

USING RECORDS TO PLAN FOR THE FUTURE

When your record book has been completed, it will provide a wealth of information on how to proceed with your SAE program. Should you expand? What management decisions could you have made differently that would have been more profitable to you? Did you make money or lose money on your enterprise? Did you pay more for your inputs than you would have if your operation had been larger or if you had produced them yourself? Your record book can provide that information.

You may decide that you would like to diversify. To **diversify** means to combine two or more projects that are interrelated so that you can better utilize your time or money. You may have a crop enterprise and realize that you could make more money on your feed grain by feeding it to livestock instead of selling it. You may sell birdhouses and decide that it would be

more profitable to harvest your own timber and process the wood yourself to make your sale items. All these management decisions can be made only if you have accurate records from your enterprise.

Summary:



Record keeping is a skill that will be used for the rest of your life! Financial decisions are made based on information provided by accurate records. Record-keeping systems for SAE programs may be handwritten or computer based. Understanding financial records and accounting helps you make decisions about the success of your SAE program. These records include inventories, depreciation schedules, balance sheets, receipts, expenses, profit-and-loss statements, cash-flow statements, production records, and accounts payable/receivable. Record keeping is easier when done regularly while actions are fresh in your mind. Decisions for the future of your SAE program are best made when you use accurate records from previous years. Planning for expansion and growth can be determined based on that information.

Checking Your Knowledge:



1. Describe what inventory is and how it is determined.
2. How is net worth calculated?
3. List and describe the nine components of a complete record-keeping system.
4. What is diversification, and how do accurate records assist in deciding whether to diversify?

Expanding Your Knowledge:



Using a form supplied by your teacher, complete a balance sheet for yourself. Remember to include any nonbusiness assets or liabilities you may have. Why do you think bankers use this type of information when deciding whether you are a good candidate for a loan?

Web Links:



American Express—Small Business Bookkeeping

<http://www10.americanexpress.com/sif/cda/page/0,1641,15571,00.asp>

Financial Record Keeping and Cash Flow

<http://www.gofso.com/Premium/BS/fg/fg-Records.html>

Agricultural Career Profiles

<http://www.mycart.com/career-profiles>