

# UNIVERSITY OF KENTUCKY

## COLLEGE OF AGRICULTURE

Extension Division

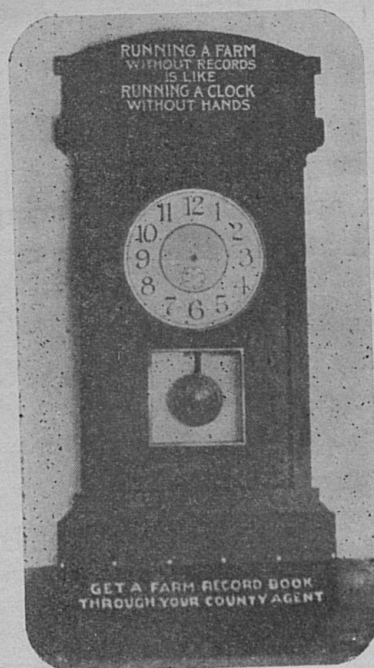
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### THE IMPORTANCE OF FARM ACCOUNTS



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The greatest increases in farm profits are made by improving production at its weakest points.

## CIRCULAR NO. 200

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### The Importance of Farm Accounts

By H. A. WARD

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It is the ambition of every farmer to place his farm on a better paying basis which will enable him to make more than a mere living, enjoy some of the comforts of life and to lay by something for old age.

Farming is of such a nature that it requires careful planning many months and sometimes years in advance of the time when the products will be placed on the market. At the beginning of each year, when planning the production program, a farmer may feel that he has selected the right combination of enterprises. Often he finds later that he has miscalculated. Prices received for certain products often are much lower than he expected when his plans were made. Like many other farmers, in planning the crops to grow and the live stock to keep he was influenced too much by the price of commodities at planting and breeding time. Present high prices usually prove to be a poor guide to follow when planning the next year's operations.

What crops to grow, how many acres to plant, what kind of live stock and how much to keep are problems which every farmer must meet. To solve these problems requires a knowledge of the market requirements, the condition of the market when the various products are to be sold, the advantages and disadvantages of different regions and areas producing the same commodity, a knowledge of price trends and the production possibilities of the individual farm.

The market for most agricultural products is supplied by a large number of individual producers working independently and often in sharp competition with one another. As a rule,

the keenest competition does not come from producers in the same community but rather from producers in other regions. As long as this condition exists, farmers must know what the producers in other regions and areas are planning to do, and to what extent they are endeavoring to supply the requirements of the market.

To be in a position to deal with his economic problems effectively, the farmer should study and learn to utilize the facilities that have been created by the State and Federal agencies in order to assist him in adjusting the combination of the various crop and live stock enterprises to changing economic conditions. The facts which farmers need to know regarding market requirements, advantages and disadvantages of competing areas, price trends and the like usually are isolated, unrelated and widely scattered. Farmers cannot divert their attention from their production programs in order to collect these isolated facts and link them together in such a manner as to give the true picture of conditions. They must rely upon outside agencies to render this service. The Agricultural Experiment Station and the United States Department of Agriculture are in a position to render this service. These agencies are unbiased and are striving to give the true and best known information regarding the leading crop and live stock enterprises which will enable farmers to plan their work according to market demands, changing economic conditions and probable price trends when the products will be placed on the market. This information is available to farmers thru various publications and the state, county and community extension agencies.

It is most important also, that the farmer find out the truth about his individual farm business. Farmers may be able to plan their production programs making the best adjustment to changing economic conditions and still fail to make a fair return for their year's work. After deciding upon the right kind and number of live stock to keep or the number of acres of each crop to plant their incomes will still depend very largely upon the methods and practices they use in the day-to-day jobs of grow-

ing their crops, feeding and caring for their live stock, and disposing of their products. One farmer may be using methods and practices much less economical or less productive than those used by his neighbors. A considerable share of the wide differences between the earnings of the best farmers and the poorest farmers in a single area for a given year has been found to be due to differences in the methods and practices used in running the principal enterprises. The farmer who finds out his less economical and less productive methods and practices and either correct or eliminates them, usually places his farm on a better paying basis. Keeping records is an effective means by which a farmer can find out the truth about himself and his farm business and determine his less economical and less productive methods and practices.

#### WHY TAKE A FARM INVENTORY EACH YEAR?

*Because:*

1. It shows the net worth or total value of all property above the amount of liabilities and tells one whether he is getting ahead or going behind and how much.
2. It shows how the total investment is divided among the different parts of the farm business.
3. It prevents drawing a false conclusion regarding prosperity from the amount of cash on hand at the end of the year. Often a comparatively small amount of cash in the bank may discourage a farmer who has done well but has his earnings tied up in some kind of property. On the other hand a large amount of cash may have come from a decrease in inventory of other property. Cash on hand taken alone is not a safe guide to farm earnings.
4. It helps to establish better credit relations with the banks or other loan agencies in borrowing money.
5. It is very useful as a basis for adjusting losses in case of fire.
6. It is necessary as a basis for keeping any system of accounts.

## WHY KEEP FARM ACCOUNTS?

*Because:*

They reveal the less economical and less productive methods and practices used in conducting the farm business and show where the farm income can be increased. They are of little or no value unless they are analyzed and the results studied. When kept in the Kentucky Farm Account book the following facts are revealed.

1. *Net earnings of the operator.* This shows the salary the farm has paid the operator for his labor and management.
2. *Gross farm receipts.* This indicates the total amount of farm receipts from the sale of crops, live stock, live stock products and any increases in inventories at the end of the year.
3. *Total farm expenses.* This shows the total expenses incurred in operating the farm.
4. *Volume of business.* This gives a measure of the volume of business by showing how much is received per acre from crops, live stock, and live stock products.
5. *Expenses per \$100 income.* This shows the thrift in all parts of the farm business and indicates how well expenses are being controlled.
6. *Number of productive animal units.* This shows the total amount of live stock.
7. *Productive animal units per 10 acres of land.* This shows how heavily the farm is stocked in proportion to the amount of land operated.
8. *Acres pastured per animal unit.* This indicates how economically pasture is being used on the farm.
9. *Live stock receipts.* This shows the gross receipts from all the live stock enterprises.
10. *Live stock receipts per animal unit.* This gives a measure of the returns from the live stock enterprises as a whole, tending to indicate the quality of the live stock. Low returns per animal unit indicate that some class of live stock is not giving profitable returns.

11. *Value of feed fed.* This shows the total value of feed fed on the farm to all live stock.

12. *Feed cost per animal unit.* This indicates whether the feed cost is high or low.

13. *Returns per dollar's worth of feed fed.* This tells how much money is being returned for each dollar's worth of feed fed on the farm to all live stock.

14. *Returns from various classes of live stock.* This shows which class of live stock is bringing in the largest return.

15. *Rate earned on the investment of the various classes of live stock.* This shows which class is the most profitable.

16. *Returns per animal unit of the various classes.* This gives a measure of the returns from the separate classes of live stock, placing each class on a comparable basis.

17. *Relative importance of each live stock enterprise in the farm organization.* This is indicated by the per cent of gross receipts coming from each class of live stock.

18. *Use of labor.* This indicates how well man-labor and horse-work are being utilized on the farm.

19. *Productive man-labor.* This shows the average number of 10-hour days of man-labor required to care for all the crops grown and the live stock kept during the year.

20. *Available man-labor.* This shows the total number of days of available labor on the farm.

21. *Labor index.* This gives a measure of the use of man-labor on the farm by comparing the number of days of available man-labor with the number of days of labor required by the average farmer to care for all the crops grown and live stock kept on the farm for the year.

22. *Man equipment.* This indicates the number of men used for a period of one year in running the farm.

23. *Crop acres per man.* This shows the number of acres of crops grown per man on the farm.

24. *Productive animal units per man.* This shows the amount of live stock kept per man on the farm.

25. *Crop acres per horse.* This shows the number of acres of crops grown per horse.

26. *Days of productive horse-work.* This shows the total number of 10-hour days of horse-work required by the average farmer to take care of the crops grown and the live stock kept during the year on the farm.

27. *Days of work per horse.* This shows the number of days of work during the year for each horse on the farm.

28. Less economical and less productive methods and practices are revealed by a proper study of the record book after it has been analyzed.

29. The analysis reveals the strong points in the farm organization and management.

30. It shows what can be done and what cannot be done to strengthen the farm organization and increase the net earnings of the operator.

*The time to start is now.* Farmers should get farm account books from their county agents or from the Department of Farm Economics, College of Agriculture, University of Kentucky. This book has been prepared especially for Kentucky farming. The cost is fifteen cents per copy which covers the cost of printing. Directions for keeping the book are printed on the various pages thruout the book. Farmers should get the book now, read over the directions carefully, take their inventories at the beginning of the new year's business, keep a record of their farm receipts and farm expenses, record their crop acreage and yields, take their inventory at the close of the year's business, attend farm business schools held in their counties, find out their less economical and less productive methods and practices used in running their farms and thereby increase their future farm incomes.

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