15. Farm Accounting with QuickBooks

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Abstract/Summary
Accurate farm accounting records are a critical foundation for a variety of farm management tasks. From tax planning and preparation to farm financial evaluation to enterprise analysis, farm managers need accurate accounting records. In this session, we will provide an introduction to farm accounting with QuickBooks, one of the most popular small business accounting systems. We will discuss the advantages and disadvantages of using QuickBooks, getting started with QuickBooks, entering common transactions, and using QuickBooks for enterprise analysis.
Farm Accounting with Quickbooks

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Notes on This Presentation

• Focus of this section will be advanced use of Quickbooks
• There are easier ways to do everything shown
• Focus will be on accounting for business performance and financial analysis
  • Accrual accounting
  • Tracking inventory
  • Enterprise analysis

Notes on This Presentation

• We are forcing Quickbooks to do things it normally doesn’t do to fit our needs
• Failure to follow proper steps may result in unexpected results
• This should really be a day long course!

Quickbooks Transactions

Recording Expenses

On the Home screen, click on Write Checks

Recording Expenses

If you are printing checks from Quickbooks make sure that Print Later is checked.
If you are entering a handwritten check, remove the Print Later check mark if present.

Enter a check number and date.

Enter a vendor in the Pay to the Order Of field.

The first time that you enter a vendor, Quickbooks will let you know the name is not found in your vendor list. Click Quick Add.

Usually you will select Vendor or Customer. Click OK.

Enter the amount of the check and click in the first row of the Account column.
Recording Expenses

Click on the down arrow to open a list of expense account or start typing the account number or name.

Select a class if the expense is a direct expense.

Recording Expenses

Recording Debt Financed Capital Asset Purchases

• Capital asset purchases without financing can be recorded like other expenses
• Required:
  • Fixed Asset or Other Expense account
    15000 – Furniture and Equipment
  • Long Term Liability accounts
    New loan: JD Financial – Combine
    Old loan: Very Big Bank – Combine

Click Save & Close

On the Home screen, click on Write Checks
Recording Debt Financed Capital Asset Purchases

Enter the down payment amount.

Enter the trade difference (or full purchase price if no trade).

Enter the proceeds from the new loan as a negative.

Enter the old loan payoff as a positive.

Enter the interest portion of the old loan payoff, if known.

Enter any loan fees or extra finance charge as a separate line, if applicable.
Recording Debt Financed Capital Asset Purchases

The total of all line items should equal the amount of the check written.

Recording Resale Purchases

- Required:
  - Inventory tracking account
  - *Farm Resale* Inventory Part Item
  - Purchased Calves Inventory – Other Current Asset
  - Linked accounts:
    - Asset Account: Purchased Calves Inventory
    - Income Account: Purchased Calves Inventory
    - COGS: Purchased Calves Inventory

On the Home screen, click on Write Checks.

Enter check number, Date, Amount, and Payee.
Click on Items

Select the appropriate item from the item list

Enter the quantity and total purchase amount

Quickbooks will ask if you want to update the cost of the item. Check Do not display this message in the future and click No

Enter a unit weight in the description

Click Save & Close
Recording Raised Grain & Livestock Production

• Required:
  • Inventory tracking account
    Raised Corn Inventory – Other Current Asset
  • Inventory Part Item
    R Corn – Raised Corn
  • Linked accounts:
    Asset Account  Raised Corn Inventory
    Income Account  Crop Sales
    COGS           Opening Balance Equity

Click on the Vendors menu and select Inventory Activities. Select Adjust Quantity/Value on Hand

Quickbooks will display a message asking for an income or expense account. Check the box and click OK

Enter the date and select an equity account as the Adjustment Account

Select a raised inventory item
Enter the raised production quantity in the QTY Difference column.

Optionally, enter a Customer:Job (tenant:field) and a Class.

If you see a New Value column, make sure you DO NOT enter an amount there!

Click Save & Close.

The updated quantity should be reflected in the Item list.

Recording Raised Grain & Livestock Sales

- Required:
  - Inventory Part Item (R Corn)
  - Linked accounts:
    - Asset Account: Raised Corn Inventory
    - Income Account: Crop Sales
    - COGS: Opening Balance Equity
Recording Raised Grain & Livestock Sales

On the Home Screen click Create Sales Receipts

Enter a Customer:Job, Class if desired, and enter sale date

Select a raised inventory item in the Item column

Enter the quantity sold in the QTY column

Enter the total sales price in the Amount column. Quickbooks will calculate the Rate (or $/unit)

Click Save & Close
To record the sale in a bank account, click Record Deposits.

The Make Deposits and Payments to Deposit windows will open.

Select the payments you want to include in the deposit by checking the first column and clicking OK.

Modify the Deposit To account, date and memo as needed. Click Save & Close.

On the Home screen, click Record Deposits.
Modify the Deposit To account, date and memo as needed

Select a Customer or Vendor in the Received From column. Or type a name if a new Customer.

Select an income account in the From Account column

Enter the deposit amount and class, if desired

Income received from multiple customers can be added to the same deposit

Click Save & Close

Income received from multiple customers can be added to the same deposit

Click Save & Close

Click Save & Close
Recording Resale Sales

• Required:
  • Resale Non-Inventory Part Item
  PCalvesSold – Purchased Calves Sold

• Linked accounts:
  Income Account  Purchased Calves Inventory

On the Home Screen click Create Sales Receipts

Enter a Customer:Job

Enter a date

Select a Non-Inventory Item set up for resale sales

Enter the quantity sold

Enter the total amount of the sale and let Quickbooks calculate the rate ($/unit)

Click Save & Close
To record the sale in a bank account, click Record Deposits.

The Make Deposits and Payments to Deposit windows will open.

Select the payments you want to include in the deposit by checking the first column and clicking OK.

Modify the Deposit To account, date and memo as needed. Click Save & Close.

Caution!! Errors here could have a significant impact on taxable income.
Consult with your tax preparer before making resale COGS entries.
Required:
- COGS account
  Resale Cattle Cost – Cost of Goods Sold Account
On the Home screen, click on Inventory Activities. Click on Adjust Quantity/Value on Hand...

Under Adjustment Type, select Quantity and Total Value. Enter the date of the sale as the adjustment date.

Under Adjustment Account, select your cost of goods sold account. Select a resale inventory item in the first row of the item column.
Recording Resale COGS

Enter the number of resale items sold (as a negative) in the quantity difference column.

Enter the resale cost carried forward in the New Value column. Work with your tax preparer to determine the proper amount.

Recording Patronage Dividends

- Required:
  - Patronage income account
    42800 – Patronage Dividends
  - LT Receivable account
    Coop Deferred Patronage – Other Asset Account

On the Home screen, click Record Deposits.
Recording Patronage Dividends

Select the bank account where you would like to record the deposit.

Enter the deposit date.

Enter the cash portion of patronage (as a positive) on the first detail line. For the From Account column, select a patronage dividend income account.

Enter the deferred portion of patronage (as a positive) on the second detail line. For the From Account column, select the same patronage dividend income account as you did in the first detail line.

Enter the deferred portion of patronage again (this time as a negative) on the third detail line. For the From Account column, select a deferred patronage other asset account.

Click Save & Close.

Recording Landlord Refunds
Recording Landlord Refunds

On the Home screen, click Record Deposits

Select the bank account where you would like to record the deposit

Enter the deposit date

Enter the landlord name in the Received From column

Select the appropriate expense account in the From Account column. Quickbooks treats deposits to expense accounts as a negative expense

Enter the landlord refund amount (as a positive)

Click Save & Close
Questions?

An Introduction to Farm Accounting with Quickbooks

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What is Quickbooks?

• Quickbooks is double entry accounting software designed for small businesses
• Relatively difficult to learn
• Relatively easy to use
• Relatively powerful

Quickbooks Strengths

• Low purchase price (≈$175)
• Quickbooks is very good at:
  • Double entry accounting
  • Tracking invoices and accounts receivable
  • Tracking bills and accounts payable
  • Calculating non-farm cost of goods sold (COGS)
  • Payroll – If you pay annually (≈$300)
• Keyboard shortcuts
• Quickbooks is flexible

Quickbooks Weaknesses

• Quickbooks is flexible
  • Follow steps exactly on the Home Screen!
  • Advertising “stuff”
• Farm accounting differs from accounting for other small businesses
  • Cash vs accrual
  • Cost of goods sold

Quickbooks Weaknesses

• Farm cost of goods sold (COGS)
  • Quickbooks only uses Average Cost in COGS calculations
  • Farmers must use First In First Out (FIFO) for resale livestock
  • Payroll add-on may be overpriced for the average farm employer
Is Quickbooks right for you?

• What is your accounting objective?
  • Tax records?
  • Reports for banker?
  • Business performance and financial analysis?

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Quickbooks Setup

Let's get your business set up quickly!

Enter appropriate company information. Company name is all that is required. Click Next.

Select your business organization. If you are not sure, ask your tax preparer.
Select the beginning month of your fiscal year. If you are not sure, ask your tax preparer. Usually January.

If several people are using your computer, you may want an administrator password. Click next without entering a password if you don't want one. It is not required and can be added later if desired.

Click Next. You will be asked where you would like to save the Quickbooks company file.

Select a location to save your company file that will be easy to find. Quickbooks' default location is somewhat hidden.

Quickbooks defaults to using the business name as the company file name. Change the name as needed.
Quickbooks Setup

Sales orders can be useful if you want to track sales contracts and inventory.

Quickbooks Setup

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Quickbooks Setup

Managing bills you owe

When should I pay my customers?
Quickbooks Setup

Select W-2 employees (assuming you have employees) even if you will calculate payroll by hand. Selecting 1099 contractors adds a few useful features that may be useful at year end.

Quickbooks Setup

Unless you have a really good reason, start at the beginning of your fiscal year. Entering transactions starting mid-year will create confusion for you and your tax preparer.

Quickbooks Setup

Select all accounts that might apply to your operation. It is easy to remove an account later if you find you don’t use it.
Quickbooks Setup

• The Quickbooks default chart of accounts for agriculture is the minimum needed for tax preparation
• This is usually not adequate for business analysis
• Work with your tax preparer or KFMA Economist to develop a chart of accounts that works for both of you

Quickbooks Setup

The Home Screen

Always use the flow chart on the Home screen!!
Suggested Quickbooks Preferences

Classes allow you to assign income/expenses to particular enterprises (2014 corn) or to a specific cost center (JD 5670 combine).

If you will be working more than 90 days in the past, changing this setting may help avoid annoying messages each time a transaction is entered.

The beeps are annoying

Gets rid of Intuit ads!
Adding Accounts to the Chart of Accounts

Add a Bank Account

Add a Bank Account
• You will need:
  • Beginning statement balance from the first bank statement that ends in the first month of the fiscal year
  • Total of all outflows from prior year that did not clear the bank until the current year (may come from several bank statements)
  • Total of all inflows from prior year that did not clear the bank until the current year

Add a Bank Account
• Beginning Quickbooks balance:

  Beginning Statement Balance
  - Total Outstanding Outflows
  + Total Outstanding Inflows
  = Beginning Quickbooks Balance

Add a Bank Account
Click to open the chart of accounts.

Add a Bank Account
Click on Account in the bottom left and click on New.
Add a Bank Account

Select Bank and click Continue.

Enter a name for the bank account and click Enter Opening Balance.

Enter the Quickbooks beginning balance you calculated and enter the last day of the prior accounting period. Click OK.

Click on Save & Close

Add a Loan

Click to open the chart of accounts.
Add a Loan

Click on Account in the bottom left and click on New.

Under Other Account Types select Other Current Liability for a line of credit or Long Term Liability for term debt with a regularly scheduled payment.

Add a Loan

Enter a name for the loan.

It may be helpful to enter the loan interest rate and regular payment amount in the description field.

Add a Loan

If you are adding a loan that did not exist at the beginning of the current year, DO NOT use Enter opening Balance.

Add a Loan

If you are setting up Quickbooks for the first time and adding a loan that existed at the beginning of the current year, click on Enter Opening Balance.
Add a Loan

Enter the loan balance on the last day of the prior fiscal year.

Enter the date of the last day of the prior fiscal year.

Click OK

Add a Loan

Click Save & Close

Add an Income or Expense Account

Click to open the chart of accounts.

Click on Account in the bottom left and click on New.

Add an Income or Expense Account

Select Income for Schedule F income. Select Expense for Schedule F expense.
Add an Income or Expense Account

For any other type of income or expense, select Other Account Types and either Other Income or Other Expense.

Add an Income or Expense Account

Enter a description. Optionally, you can enter an account number and master account information.

Add an Inventory Account

Click to open the chart of accounts.
Add an Inventory Account

Select Other Account Types and select Other Current Asset

Add an Inventory Account

Enter an Account Name and Click Save & Close

Add an Inventory Account

Click Continue

Add an Inventory Account

Click on Account in the bottom left and click on New.

Add a LT Receivable Account

Click to open the chart of accounts.
Add an LT Receivable Account

Click on Account in the bottom left and click on New.

Add a LT Receivable Account

Select Other Account Types and select Other Asset

Add a LT Receivable Account

Enter an Account Name

Add a LT Receivable Account

Click Enter Opening Balance…

Add a LT Receivable Account

Enter the balance as of the last day of the last fiscal year

Add a LT Receivable Account

Enter the last day of the last fiscal year
Add a LT Receivable Account

Adding Items

Quickbooks Items

- Items are used to detail purchase orders, sales receipts, and invoices and link them to inventory, income, and expense accounts
- Quantities are not available without the use of purchase orders, sales receipts, or invoices
- Several item types are available, we will use:
  - Inventory Part
  - Non-Inventory Part

Add an Inventory Part Item

- Quickbooks utilizes the Average Cost method to calculate resale cost which is not available to farmers
- We must force Quickbooks to do what we want to track resale inventory
- For farm assets purchased for resale (feeder cattle), link the inventory part item to the same account

Add a Farm Resale Inventory Part Item
Add a Farm Resale Inventory Part Item

Click on the Lists menu and select Item List.

Add a Farm Resale Inventory Part Item

Click on Item in the bottom left and select New.

Add a Farm Resale Inventory Part Item

Select Inventory Part.

Add a Farm Resale Inventory Part Item

Enter an abbreviated description in Item Name/Number.

Add a Farm Resale Inventory Part Item

Enter a description for both purchases and sales.

Add a Farm Resale Inventory Part Item

Select the same inventory account (other current asset) for the COGS Account, Income Account, and Asset Account.
Add a Farm Resale Inventory Part Item

Verify that Cost and Sales Price are both zero. This is very important!

Add a Raised Inventory Part Item

Add a Raised Inventory Part Item

Add a Raised Inventory Part Item

Add a Raised Inventory Part Item

Click on Item in the bottom left and select New

Click on the Lists menu and select Item List

Under Type, select inventory Part
Add a Raised Inventory Part Item

Enter an abbreviated Item Name/Number

Select an equity account for the COGS Account

Select the appropriate inventory account under Asset Account

Enter a description under Sales Information

Select the appropriate Income Account

DO NOT enter an amount in Cost or Sales Price!
Add a Non-Inventory Part Item

Click on the Lists menu and select Item List.

Add a Non-Inventory Part Item

Click on Item in the bottom left and select New.

Add a Non-Inventory Part Item

Under Type, select Non-Inventory Part.

Add a Non-Inventory Part Item

Enter an abbreviated Item Name/Number.

Add a Non-Inventory Part Item

Enter a Description.
Add a Non-Inventory Part Item

Add a Non-Inventory Part Item

Add a Non-Inventory Part Item

Questions?

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