



## Easy, Fast Bookkeeping

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A few people actually enjoy bookkeeping. For most of us, it's a tedious job that we have to do, and all too easy to put on the back burner since it doesn't produce the same visible, visceral results that building a fence or harvesting carrots does. Since it's such an easy job to put off, it doesn't take long to create a seemingly insurmountable pile of stuff with something scary likely lurking somewhere in the middle of it – and you don't want to find yourself behind on paying bills when the weather's finally right for killing weeds.

Fortunately, modern bookkeeping tools and a good system for using them can make a big difference when it comes to cranking the bookkeeping widget. December is a great time to set up a new bookkeeping system, or revamp your old one, since the fiscal year starts on January 1, and you want to input your data in a consistent way throughout the year.

A successful bookkeeping system has three important outcomes: facilitate cash flow budgeting, monitoring, and decision-making throughout the year; make it easy to analyze profitability; and provide documentation and data for taxes. Contrary to the way many bookkeeping systems are set up, the last of these is the *least* important. – completing a schedule F is a once-a-year event, and the data can be easily extracted from a good bookkeeping system that is organized around the priorities of providing you with the information you need.

A successful bookkeeping system also has to be easy to use. Most farmers I know do their own bookkeeping, and even if you don't, good bookkeepers don't come cheap. That means you need systems that facilitate fast data entry and filing with a minimum of thought, especially if you are prone to doing bookkeeping after the field work is all done, or with a beer in hand.

I use QuickBooks for my bookkeeping, and will refer to it throughout this article. I've looked at other bookkeeping software, and I know that everybody has their preferences, but I keep coming back to QuickBooks because it's the industry standard. You can use the same organization and workflow described here with any bookkeeping system.

### Setting Up Your Accounts

An “account” is the most fundamental unit of bookkeeping: a record used to collect and store debit and credit amounts (one of the things to love about a good bookkeeping program is that you don't have to remember when to debit and when to credit, like we did in my high school accounting class – you just enter the data, and program figures out the rest). So, your bank account is an “account,” as are “rent” and “CSA Income.”

In an accounting system, money moves from one account to another, so that when you put money into your checking account, it has to come from another account, such as Farmers Market Sales. In this way,



writing checks and making deposits builds the financial data you need to make good business decisions (and keep Uncle Sam happy).

In QuickBooks, each account has an associated Type, so that the program knows how the account should behave. The most basic account types are income and expense accounts. Bank accounts represent actual money, regardless of whether it's with a bank or not; so Cash, Paypal, and Checking are all "Bank" accounts. QuickBooks also has accounts for non-cash current assets like Accounts Receivable, Fixed Assets like equipment and buildings, Current and Long-Term Liabilities like Accounts Payable and loans, and Credit Cards.

When you first set up a company in QuickBooks, the program asks you to select your industry. Choosing Agriculture gives you a chart of accounts based largely on the Schedule F, with income and expense accounts organized in alphabetical order. I don't find it very useful for business analysis and I recommend changing it. A lot.

QuickBooks allows you to organize your accounts hierarchically, so that you can group associated information together using subaccounts. Grouping similar expenses helps you understand the overall patterns of your expenses in terms of the various functions of your farms. For example, grouping all of your labor expenses – payroll, payroll taxes, payroll processing, workers compensation insurance, casual and contract labor, recruiting expenses, health insurance, and perks for employees – in one place can help you understand the true cost of having employees.

#### LABOR

- Casual and Contract Labor
- Health Insurance
- Housing for Employees
- Payroll Expense
  - Payroll
  - FUTA
  - Taxes
- Payroll Processing
- Perks for Employees
- Recruiting Expense

In addition, grouping related expenses together can help make certain you are comparing apples to apples from year to year. If one year you hire a migrant weeding crew as casual labor, and the next you hire hourly employees to do the same work, those are both expenses associated with labor; the same is true if you offer low wages and housing one year, and then high wages but no housing the next.

At Rock Spring Farm, we've divided all of our expenses into six major categories: Infrastructure, Labor, Machinery and Equipment, Operations, Overhead, and Sales and Promotion. Another farm I work with uses top-level expense categories of Infrastructure, Labor, Machinery and Equipment, Production, Administration, Distribution, and Sales and Marketing. Both of our farms divide our income into two major categories: Income from Crops, and Non-Farming Income.

Grouping and totaling expenses this way allows us to get a high-altitude perspective on where our money comes from and where it goes, as well as what income and expenses vary with production and what doesn't. When we are looking at our finances trying to figure out where to cut expenses, we can quickly see what part of the business is really costing us money.

Here is an abbreviated sample chart of expense accounts. It will certainly differ for your operation:

#### INFRASTRUCTURE

- Rent on Land
- Repairs to Buildings

#### LABOR

- Casual and Contract Labor
- Health Insurance

#### MACHINERY AND EQUIPMENT

- Fuel for the Farm
  - Diesel
  - Unleaded
- Rental of Equipment

#### OPERATIONS

- Crop Production
  - Field Supplies
  - Soil Mix
- Custom Hire
- Freight - Outbound Product

#### OVERHEAD

- Cell Phone
- Computer Expense
  - Hardware
  - Software and Online Services
- Echo
  - eFuel
  - Insurance
  - Maintenance and Repair

#### SALES & PROMOTION

- Advertising / Marketing
  - Internet Marketing
  - Newsletter Printing
- Farmers Market Supplies
- Organic Certification
  - Application and Inspection
  - Users Fees

I also have an important expense account called Ask My Accountant, so that I have a place to put things that need further clarification.

In addition to the break-out above, I use a Cost of Goods Sold category for things that we buy and resell, such as fruit to CSA members and potting soil to other farmers.

The key to organizing accounts is to think about why you are incurring an expense. In the example above, you'll see that I have Internet Marketing under Advertising / Marketing in Sales & Promotion, while Software and Online Services are under Computer Expense in Overhead. Internet marketing certainly happens through online services, but it doesn't have anything to do with the expenses of owning and operating a computer – it doesn't belong in the same category at all. I have Software and Online Services as one account because the line between software on my computer and services online has become so blurred in the last five years.

Having expense accounts such as Freight and Trucking in the proper category can also help avoid misunderstandings about how to allocate expenses. If you order fertilizer, and it comes with a freight bill of \$495, that expense belongs to the fertilizer, not to a separate category. I try to use as much description as possible in my account names, so instead of Freight and Trucking, I call that account Freight – Outbound Product.

If you consistently find yourself wondering which of two accounts a particular expense goes in, get more descriptive with your account names. If you have an account for Packaging and another one for Packing Supplies, and you can't remember where the plastic bags go, you need to rename something.

For bank, credit card, and loan accounts, I always include at least part of the account number in the name, and I make certain they are easily distinguished and clear. I would rather have a long descriptive name than something too short, especially since QuickBooks will auto-complete the entry. Because credit card and debit card receipts almost always have the last four digits of the card number, I always include that in the card name; for example, 2994 Visa for one of the farm credit cards.

## Managing Loan Payments and Fixed Assets

Each loan I carry has its own account in QuickBooks, with the bank's loan number and a description; for example, 75451 Farm Real Estate Mortgage. I have all of my loans set up for automatic payment at the bank, so that I don't have to worry about them.

Because of the way amortization schedules work, interest and principle payments change from month to month. Month-to-month, I only care how much money is going out the door, so I don't distinguish between interest and principle payments on a monthly basis; instead, I enter the entire amount of the payment each month. At the end of the year, I use the bank's end-of-the-year statements to make a general journal entry to move all of the interest from each loan into an account called Interest Expense.

Distinguishing between operating expenses and capital expenses matters. Operating expenses are associated with the day-to-day operation of the business, and should be recorded in an expense account. Capital expenses, which apply to the purchase of assets such as property, buildings, and equipment, should be recorded in a fixed asset account.

In my system, all fixed asset purchases go into one account, called Fixed Assets. I also have a fixed asset account called Fixed Asset Disposal so that my accountant can see what equipment I've sold each year, and take appropriate action. I track individual pieces of equipment in a spreadsheet, rather than using QuickBooks. If you use an accountant, she will probably want to weigh in on how you manage your fixed asset accounts, and exactly what counts as a fixed asset.

## Using Bills in QuickBooks

Even though I run my farm on a cash-basis accounting system, I use the Bills function in QuickBooks to track my payables (the money that I owe). It speeds up data entry, especially when I've got multiple bills from the same vendor, such as my trucker or a seed company. More importantly, it facilitates decision-making when cash supplies are tight, and helps me know exactly where I stand. If you write checks but don't mail them, or sit on bills without entering them into your bookkeeping system, you never have a solid record of what money is in the bank, and what money is owed.

## Lightning Fast Data Entry

When I sit down to do data entry, I want it to go fast. Spend some now thinking about naming conventions and setting up recurring transactions so that when the frenzy of summer hits, it's easy to stay on top of your bookkeeping. While it may seem tedious to set them up, these shortcuts can save a tremendous amount of time over the course of the year.

Just about anywhere in QuickBooks, once you start typing, QuickBooks tries to auto-complete the information. Naming accounts, items, vendors, and customers with this in mind can save keystrokes and dramatically speed your data entry. Take two of my wholesale customers – Mississippi Market Selby and Mississippi Market West Seventh. When I start typing m-i-s-s, QuickBooks shows me a menu that offers a choice between the two stores. Choosing a store requires using the arrow keys or the mouse, meaning that I have to move my hand off the keyboard, costing me precious seconds. If I rename the customers “Selby Mississippi Market” and “7 Mississippi Market West Seventh,” I only have to type one character to select the correct choice. You can set the correct name to print on invoices using the Edit Customer window.

You can set QuickBooks to use the most recent transaction for a vendor to auto-fill details for the current transaction. This way, even though your electric bill varies from month to month, when you enter the name of the electric company on the bill or check, the right account information automatically appears. Use the General section of the Preferences window to set QuickBooks to “Automatically remember account or transaction information,” and select the option to “Automatically recall last transaction for this name.”

For some simple transactions, the name of the vendor might not matter at all, and the account split might always be the same. I don't care where I purchased gas for my Toyota Echo, and the whole purchase always gets allocated to the account, eFuel. I created a vendor “cGas” so that entering cGas in the vendor name auto-fills the correct account information.

Memorized Transactions can be used for automatic billing. We use ConstantContact for our email newsletter, and the amount and date of the credit card charge is the same every month. A memorized transaction means that QuickBooks will enter it automatically, and I never have to think about it. I use this for loan payments as well. You can memorize a transaction by selecting Edit > Memorize [transaction type], and set it to auto-enter according to a schedule you set.

For bank account transactions without a check number – such as an electronic funds transfer or debit card transaction – I type a “d” in the check number field. In addition to being fast, this sorts these types of transactions to match the sort order on my checking account statement.

Using the Tab key to navigate through a given window greatly speeds data entry. Every QuickBooks window allows you to move from field to field with the Tab key, then hit enter to trigger the action in the highlighted button on the window. If you’ve been using your mouse to navigate, using the tab key will seem awkward at first, but it will save you time in the long run.

Computer-printed checks and deposit forms, combined with window envelopes, are much faster and much less error prone than their handwritten counterparts, and they facilitate “batching” your work. I prefer voucher checks over the ones that come three to a page. QuickBooks automatically prints bill and account information on the voucher, so I don’t have to fill out the memo section of the check with this information.

## **Cranking through the Paper**

I use a two-part filing system to organize my bookkeeping work before I do it, and to archive it when it’s done. Incoming information is organized by the kind of work I need to do with it, and archival documents are filed by month.

Any incoming financial information, such as bills, receipts, and financial statements, goes into the inbox that sits on the corner of my desk nearest the office door. Everything goes in it: when my daughter brings the mail in, it goes in the inbox; if I receive financial documents via email, I print them and put them in the inbox; and when I come home from the hardware store, the receipts go right in the inbox.

One a more-or-less daily basis, I empty the inbox by taking each individual piece of documentation out of the inbox, and filing it by the type of action it requires. This allows me to do my work in batches – inputting all of the checks drawn on a given bank account, then entering the receipts from a given credit card – since I’ve sorted the work right from the outset. Doing this on a daily basis also means that when I’m ready to do my bookkeeping, that’s all I’m doing – not sorting receipts.

I use colored heavy-duty file folders to sort the financial documents in to separate folders for each credit card and each checking account, as well as Bills to Enter, Payments Received, Transfers to Enter, and Cash to Enter folders. I labeled the files with a label printer because I use them every day; and because I’ve learned that it’s better to be too clear with myself than too vague, I’ve labeled things with enough details that I don’t have to think too much. I use red folders for my work-to-do files, so that I can find them quickly and easily.

## Inputting the Data

I try to do my bookkeeping on a weekly basis, which means that it usually happens about once every two weeks. That's enough to keep me ahead of due dates (or at least ahead of the grace period).

To do my bookkeeping, I pull out all of my red folders and stack them on my desk between my keyboard and my monitor. To my left, I open the two green heavy duty folders that I keep with my active files: the Current Month folder, and the Bills to Pay folder.

I open the top red folder, enter the data for the top piece of document, and move that document to the Current Month folder. Then I process the next document and the next. When I've finished the folder, I close it and slide it under the Current Month folder.

When I get to the Bills to Enter folder, I arrange the Bills to Pay folder so that I can put documents in it as well as in the Current Month folder. If I need to put the check in an envelope provided by the vendor, or if I need to return a stub, I staple the stub to the envelope and put it in the Bills to Pay file. (I could paperclip them, but paperclips sometimes get tangled or fall off. Plus, I have a cool yellow stapler that I really like to use, and a nifty staple remover.) If I don't need to return a stub, the processed bill goes right into the Current Month folder.

For the Payments Received folder, I process all of the payments, then tear off the vouchers for all of them at once. I print a deposit slip with a pre-printed slip that goes in my printer, staple the vouchers to the removable bottom of the slip, and put that bundle in my Current Month folder. The deposit slip gets paper-clipped to the endorsed checks (I use a stamp for endorsing checks), and put in my take-to-town pile.

When all of my red files are empty, I pay the bills using the Pay Bills window, print all of the checks, and either match them up with their stubs or put them in a window envelope. I have a file folder labeled "Stamps" that I keep with my bookkeeping files, since I rarely use a stamp for anything else.

At the end of the session, I've emptied all of my red work-to-do files, and moved all of the documentation into the green Current Month and Bills to Pay files.

## Financial Filing

Back when I started farming for myself, I would keep a "to-file" pile of papers and receipts waiting for me to find them a home. The only problem? I never had time to file – and that meant that information I needed might be in a file folder, and it might be buried somewhere deep in the pile.

Now I file by month rather than by vendor or account. It's as close as I can get to having an automated filing system, and it happens in real time.

At the end of the month, I take everything out of my green Current Month file, and put it into a plain old manila folder labeled by year and month: 2012 November. I file that with the rest of my archived

financial information. I file in reverse chronological order, which keeps the files I'm most likely to need to access closest to the front of the drawer.

About once a month, I need to find a receipt. I use the search function in QuickBooks to find the transaction date, then search through the papers in that month's file to find the documentation. The extra time it takes to find the information is more than offset by the time saved in filing this way.

I have separate, individually labeled folders for each bank account, credit card, and loan statements where I put loan documentation and statements. I keep another folder where I place notes from every conversation with my banker.

In the end, bookkeeping is just organization and work. Think through the information you need and the level of organization required to get it. Taking the time now to think through and set up your systems for managing your finances will ensure that when the June rush hits, you can stay on top of things with a minimum of effort and stress.

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