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Planning for Bookkeeping



Partners in Tax Education

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About the Instructor

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She began her career as a California CPA, and later worked for the USDA.

She holds a Juris Doctor with a certificate in Food and Agricultural Law from Drake University Law School, and a BS in Agricultural Economics from the University of California at Davis.



Overview

1. Bookkeeping
2. Clean Up or Start Over?
3. Setting Up A Good System
4. Monthly, Quarterly and Year-end Practices
5. How to Get Help



Bookkeeping



Bookkeeping

Recording financial transactions into a double-entry system:

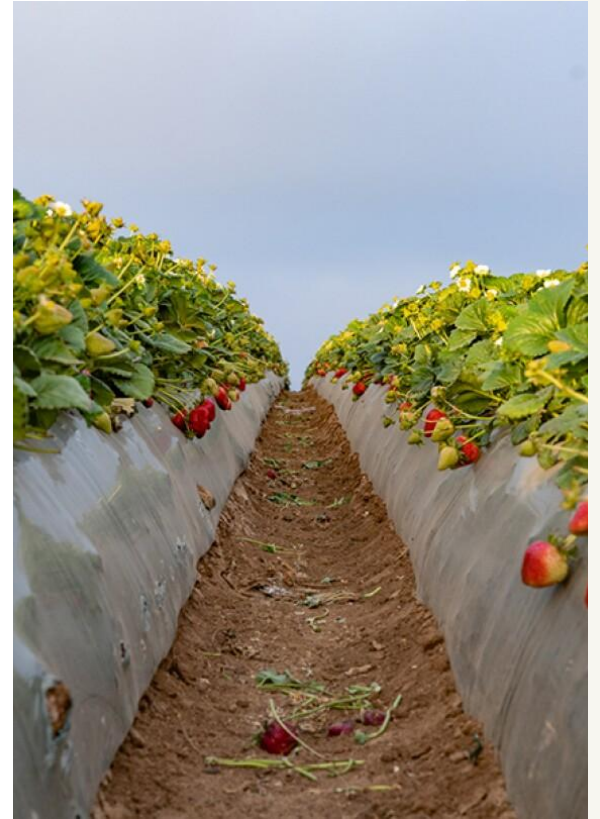
- ❑ Recording payments made using cash, bank transfers, credit cards, or checks
- ❑ Recording bank deposits including cash, bank transfers, credit cards, or checks
- ❑ Reconciling the bank account each month to verify that all transactions have been recorded
- ❑ Recording accounts payable and payments made
- ❑ Recording invoices to customers and payments received
- ❑ Recording payroll from information provided by a payroll service (recommended) or calculating, disbursing and recording payroll

Bookkeeping System

- ❑ Manual system of ledger books until the 80s
- ❑ 80s and 90s bookkeepers and accounting firms had access to accounting software but small businesses were still manual and working in combination with a bookkeeper and accountant
- ❑ Quickbooks changed how small businesses do accounting
- ❑ At first it was going to put all the bookkeepers out of business
- ❑ Ended up making them busier than ever but now they mostly do clean up work
- ❑ Other options: Xero, Sage, specialized farm-focused software
- ❑ You need a plan!

Bookkeeping System

- ❑ Choose software
- ❑ Choose level of help you need
- ❑ Evaluate what you do and do not know
- ❑ Get help where you need it
- ❑ Commit to developing knowledge and confidence understanding both the processes of bookkeeping and how to analyse the reports produced by your bookkeeping system.



Clean Up or Start Over?



Clean Up or Start Over?

It is common for your books to become so crowded with accounts, sub-accounts, classes, items, and old transactions that it is cumbersome to use.

- It can be very costly to clean it all up – and the old data is still there causing the file to run slowly.
- If your business is more than a few years old, and your books are not clean and lean, you are probably better off starting with a new company at the beginning of the year.



How Do You Know You Need To Re-do Your Books?

Balance sheet does not make sense

- Look around you - what assets do you see?
- Look at your balance sheet - are those assets reflected there?

Income statement is too long (more than two pages)

- Do you know what all the accounts are for?
- Do you need that much detail?
- Does it tell a concise story about sales and related expenses?
- Does the order of presentation of accounts make any sort of sense?



How Do You Know You Need To Re-do Your Books?

Compare your Chart of Accounts to the Resilerator Model Chart of Accounts

- Try to make your books look more like the Resilerator Model Chart of Accounts

What to do?

- Start asking about good bookkeepers who can help you
- Make a plan to clean up you books and find help implementing the plan



Setting Up A Good System



Bookkeeping Set Up

Keep your goals in mind:

- **Readable financial statements**
- **Complete and accurate tax returns**
- **Balance Sheet should be one page**
- **Income Statement should be two pages maximum**

Remember: you will do your analytical, or managerial accounting work in Excel.

Keep your bookkeeping system simple and use Excel for when you want to get into complexity.



Sample Chart of Accounts

California FarmLink's *Model Chart of Accounts* is available in the Bookkeeping Learning Center.

Note the distinction between asset, liability, and equity accounts which create a balance sheet, and income and expense accounts which create an income statement.

The balance sheet accounts are standard. The Income accounts are standard. The expense accounts are divided in a way that helps to distinguish between production, marketing, and administrative costs.



Expense Accounts

Resilerator Model Chart of Accounts - everything is a sub account of one of three expense accounts

- Production
- Marketing
- Administration

More sub-accounts are usually a bad idea – think critically – why do you need this extra layer of detail?

- Account name should be the right level of detail.
- Use the memo field when needed to clarify why a payment to a vendor like “Office Depot” is a piece of equipment not general “office supplies.”



Additional Functions

Your bookkeeping system generates data you can use to do supplemental cost of production/cost of marketing analysis in Excel

- ❑ You can set up “classes” or “divisions” to get special managerial income and expense reports – but be strategic about how many classes you set up and how consistently you use them.
- ❑ If you invoice customers you will be able to run reports by vendor
- ❑ If you set up the items you sell as “items” in QuickBooks you will be able to run reports by item. Other software has similar functionality.
- ❑ Typically items and vendor invoicing go together – but be careful each item comes with a price and as prices change through the season you can quickly end up with dozens of “items” for one actual item.

Costs of Production, Sales, and Goods

Cost of Production, **Cost of Sales** and **Cost of Goods Sold** are all different!

- **Cost of Production** includes items you produced but did not sell including things you grew too much of or crops that did not reach market size or quality on time. This is critical data!
- **Cost of Sales** includes packaging and transportation expenses.
- **Cost of Goods Sold** *requires an Inventory account* and inventory accounting - unless you have value added production and do formal inventory accounting you should not have cost of goods sold (COGS) in your bookkeeping system.

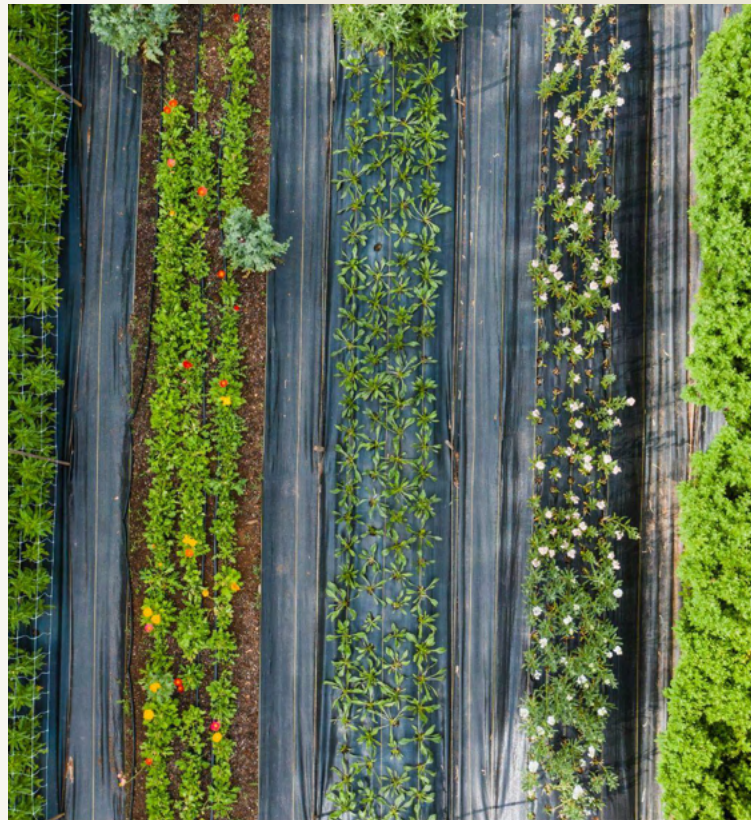
Inventory or Costs of Sales Accounts

But how do I know what I sold?

- The “items” function in Quickbooks can help you track **quantities** sold of each product.
- Be careful how you set up items, have a plan or your list will become too long and not useful.
 - Prices on items change during the season - you do not want a new item every time the price changes.
 - Set up items as standard counts and packs¹.

Be sure to check your state requirements for standard pack.

Monthly, Quarterly, and Year-end Practices



Reconciling Cash Accounts and Credit Card Accounts

- ❑ The goal of a monthly reconciliation is to ensure that all of the activity that goes through the business checking account or business credit card is recorded in the bookkeeping system.
- ❑ It is the single most important thing you can do to protect your business and ensure accurate bookkeeping records.



Monthly Practices

- ❑ Reconcile all bank accounts. A fully reconciled bank account is the only way to confirm that all cash transactions have been accounted for.
- ❑ Review receivables list, collect outstanding payments owed, write off bad debt if needed.
- ❑ Review asset list and update it for assets purchased or sold



Monthly Practices

- ❑ Review accounts payable for anything overdue, or paid but not shown as paid. Make arrangements for payments if you need to extend payment time - it is always better to be proactive.
- ❑ Review income and expenses
 - ❑ Is anything missing or double-counted?
 - ❑ Are transactions recorded in the correct accounts?
 - ❑ Are the accounts organized in a meaningful way?



Quarterly Practices

If you have payroll:

- Confirm that quarterly payroll returns are accurately filed.
- Reconcile the total reported for the quarter to the IRS and EDD to the totals shown on your books.



Year-End Practices

- ❑ You should have an outside accountant close your books and prepare financial statements and tax return for you.
- ❑ Repeat all regular monthly procedures plus compare loan balances in your books to statements from lenders and adjust so that your interest expense matches what was paid and your liability account shows what is owed. Work with your lender if there are any discrepancies.
- ❑ We will talk about tax deductions that are not recorded in your bookkeeping system in the tax class.
- ❑ Don't forget about county property taxes for business equipment!
- ❑ Archive prior year files and set up new files to start a new year.

How to Get Help



Being Your Own Bookkeeper

- A good way to learn



Hiring A Bookkeeper

- A good way to learn
- A faster way to get your books done
- Frees up your time to do analysis and planning based on the data the bookkeeper provides



Bookkeeper

- Should have a good understanding of double entry accounting
- May be self-employed or an employee
- Should not have check-signing authority
- Should not be the same person who deposits checks
- Should bring questions to your attention
- Should be able to run basic reports and answer questions related to the normal financial operations of the business
- Usually works closely with the accountant/CPA/tax preparer at year end to clarify questions and to record any adjusting entries made for financial or tax accounting purposes

Supervising a Bookkeeper

- Always **verify** that the bank accounts and all credit cards are reconciled each month - usually within two weeks of the end of the month. Look at the reports! Ask questions!
- As soon as possible work with them to create a detailed accounting procedures manual so that someone else could step into the bookkeeper's role.
- Make sure you know how to run key reports and perform key functions yourself.
- From time to time run a report or cut a check yourself and make sure the bookkeeper knows you randomly do things like that.

Supervising a Bookkeeper

- Never buy into the idea that the bookkeeper is irreplaceable/you could not function without them.
- A best practice is to require a vacation at least once a year and have someone else perform the bookkeeper's tasks for two weeks.
- It is common for people to become overly reliant on their bookkeeper, this makes fraud more likely. When fraud happens (it happens all the time) it is usually the bookkeeper.
- ***If your bookkeeper is honest and wise they will want you to do all of these things!***

How to Get Help

For your continued learning

- www.accountingcoach.com/

Professional Services

- Bookkeeper
- Unlicensed Accountant
- Unlicensed tax preparer
- Enrolled Agent (a licensed tax preparer who is not a CPA)
- Certified Public Accountant





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Questions?





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Thank you!

