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COST EFFECTIVE SOFTWARE ENCOURAGES FINANCIAL MANAGEMENT

by Kenneth W. Stokes

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Previous communications to *CHOICES* have pointed out the need for greater emphasis on financial management and business planning at the farm level. Chapell in the First Quarter 1989 *CHOICES* states that the problem was one of educating producers about the need for better financial management, arguing that producers must be aided in the effective use of available tools. Chapell also argued for research to find out how producers can be motivated to use financial management and business planning tools.

In a follow-up article in the Fourth Quarter 1989 *CHOICES*, Evans denounced the state of financial management and record-keeping among farm operators. He agrees about the challenges of getting farmers to improve and urges the Extension Service to aggressively offer basic farm financial management training and promote record keeping by farm operators. But maybe we need to explore this issue from an economic perspective.

It is possible that farmers and ranchers have concluded that the cost of comprehensive financial records is too high in terms of time and effort. It may not be the lack of motivation or skill. Producers take time to learn complex technology when they believe it pays. Early predictions that microcomputers and agricultural accounting software would reduce the cost of preparing financial information proved wrong.

When microcomputers first came along, farmers wanted to keep their checkbook on the computer. Extension economists encouraged them to take the big step and use enterprising, accrual adjustments, overhead cost allocations and contingency tax liabilities. The software was expensive, but the time needed to learn the new system was even more costly. Given the uncertain payoff, producers purchased few computers and agricultural accounting software.

In Texas, a dramatic turnaround occurred when the Extension Service started using one of the low-cost financial record systems to teach cash-basis, computerized farm recordkeeping. Across the state, we have used a variety of formats to teach computerized cash-basis financial recordkeeping, ranging from short

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presentations to 2½ day, hands-on short courses. Novice computer users comprise most of our enrollments. However, we have seen people experienced in high-end accounting programs switch to this popular and low cost program because of its power and simplicity.

Farmers using simple accounting software save time on recordkeeping if two conditions are met: the producer regularly transfers information from the checkbook to a summary format and reconciles the checkbook with the bank statement each month. Even more time is saved when producers use the computerized check writing and envelope addressing features.

The case studies we use in our introductory courses are simple cash-basis records. Direct receipts and expenses are assigned to enterprises. Transaction, cash flow and enterprise reports are produced. The biggest problem—lack of computer facilities for hands-on teaching—was solved by borrowing high school, community college and private computer labs.

The real appeal is that farmers can quickly learn to use a simple, time saving, computerized recordkeeping system. As they realize the ease of obtaining better financial information, they add new accounts. Later they can expand into the double entry, accrual system capable of producing a balance sheet and income statement. Often, the first additional accounts track employee withholding, FICA payables and operating loan balances. Asset accounts come next in the form of aggregate numbers, e.g., one entry for total equipment value rather than one entry each for individual equipment items. Accrual adjustments come later.

In Texas, at least, extension economists have taken the first step toward meeting Chapell and Evans' challenge to promote recordkeeping by agricultural producers with limited business management training. Based on our experience to date, success requires more than motivation and education. Producers must be introduced to a cost effective system.

For More Information

Wayman G. Chapell. "Farm Management." *CHOICES*. First Quarter 1989, p. 34.

Carson D. Evans. "Farmer Financial Planning Needs More Emphasis." *CHOICES*. Fourth Quarter 1989, p. 38.

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