

# ORCHARD BUSINESS RECORDS

## Jennie S. Popp

Department of Agricultural Economics & Agribusiness  
University of Arkansas  
Fayetteville, AR 72701

## Claude L. Dorminey, Retired

Department of Agricultural & Applied Economics  
University of Georgia  
Tifton, GA 31793

Business records are essential tools to facilitate informed decision making. There is no substitute for an orchard business accounting system designed to meet your management needs by answering questions about the business with the least effort.

To structure the accounting system, think about the questions to be answered. Some might be:

- (1) What was the net income from the orchard operation in the current year? How does it compare with previous years?
- (2) What is the orchard's debt-to-asset ratio and how has it changed from year to year?
- (3) What is the orchard's net worth?
- (4) What costs increased the most?
- (5) How did different varieties and blocks rank in profits or losses?
- (6) What were the itemized costs per unit of production by variety and block?
- (7) How did different varieties and blocks rank in yield, quality, and marketability?

These are examples of questions that a good record system can answer. Records to answer questions five, six, and seven are too often incomplete, undefined, or lacking. Definite answers to these key questions are critical to a successful orchard business. Production and financial records should provide a detailed, block-to-block history of costs and returns.

Production records should help describe the size and scope of an operation. Parameters include acreage, yield, varieties, costs of fertilizer, insect, disease, and weed programs, irrigation usage, labor hours, and other key physical production practices. All of these criteria are important in combination with financial records for analysis, decision-making, and management.

Financial records provide a record of all cash receipts and expenses, capital transactions, inventory, depreciation, credit transactions, and labor costs.

Labor is a very important expense in any orchard operation and the accounting requirement is complex; therefore, keep labor records separate from other records.

Keep pre-productive orchard or non-bearing expenses separate from bearing orchard expenses. The Tax Reform Act of 1986 requires all orchard development expenses for orchards having a non-bearing (pre-productive) period of more than two years to be capitalized. Depreciation of capitalized expenses may begin in the year the orchard reaches an income-producing stage.

Growers had the option on schedule F of their 1987 tax return not to capitalize pre-productive expenses. The election applied to 1987 and all future years and is irrevocable. Farmers who elected not to capitalize pre-productive expenses may deduct expenses in the year in which they occur. Farmers who entered the business after 1986 can elect out of pre-productive capitalization on the return of the first year they are in the business. However, it is important to note that electing out requires producers' use of longer-life alternative depreciation for all farm assets. Further information may be obtained from your tax consultant.

The uses of orchard records can be classified into three categories: (1) indicators of the business' economic health, (2) information for enterprise cost-return analysis, and (3) information for service purposes.

## INDICATOR FOR ECONOMIC HEALTH

When the records are summarized, the net farm income reveals the degree of success or failure of the total business. Compare this figure with comparable figures from earlier years to determine the general direction of the business.

## ENTERPRISE COST RETURN ANALYSIS

The primary use of orchard records is to determine the level of profitability of each enterprise. Enterprise may refer to any specific unit in the overall orchard operation such as a given farm, block, or variety as defined by the record keeper. Managers should closely examine the net returns per dollar of capital expended, especially if capital is a limiting factor in the operation.

## INFORMATION FOR SERVICE PURPOSES

Managers experience considerable demand for information for filing and substantiating tax returns, for acquiring credit, for planning, and for day-to-day management. Information obtained from records helps to meet these needs.

Record keeping may involve a simple ledgerbook or a complex computer program. No matter which record keeping method is chosen, it is important to keep good useful records that will enable a complete, concise analysis of the business.

Record-keeping assistance may be obtained from extension personnel in your state. The following guidelines were obtained for producers in six southern states:

Alabama	Contact your county Cooperative Extension Service agent for recommendations suitable to your orchard or visit <a href="http://www.aces.edu/">http://www.aces.edu/</a> for more information.
Arkansas	Cooperative Extension Service offers a "Farm Record Book" for manual record keeping and workshops to demonstrate the use of Quicken. Contact your county extension agent or visit <a href="http://www.aragriculture.org/farmplanning/links.asp">http://www.aragriculture.org/farmplanning/links.asp</a> for more information.
Florida	Contact your county Cooperative Extension Service agent for recommendations suitable to your orchard or visit <a href="http://nfrec.ifas.ufl.edu/">http://nfrec.ifas.ufl.edu/</a> for more information.
Georgia	Georgia Cooperative Extension Service offers the "Georgia Farm Record Book," a manual system, and the Georgia Extension Farm Business Management Advisory Program, which includes business enterprise analysis and record-keeping guidance. Contact your <a href="#">county extension agent</a> or visit <a href="http://www.ces.uga.edu/Agriculture/agecon/alt.htm">http://www.ces.uga.edu/Agriculture/agecon/alt.htm</a> for more information.
Oklahoma	Cooperative Extension Service offers manual record books entitled "Farm/Ranch Account Book" and "The Oklahoma Farm Family Account Book" and instructions for adapting Quicken. Contact your county extension agent or visit <a href="http://osuextra.okstate.edu/index.shtml">http://osuextra.okstate.edu/index.shtml</a> for more information.
South Carolina	Contact your county Cooperative Extension Service agent for recommendations suitable to your orchard or visit <a href="http://cherokee.agecon.clemson.edu/extindex.htm">http://cherokee.agecon.clemson.edu/extindex.htm</a> for more farm management information.

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