

## Financial Analysis – Recordkeeping and Beyond

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## Key points

- ⌘ Separate the household and business financial records
  - ☒ **Separate checkbooks**
- ⌘ Bookkeeping (and financial analysis) is for **management** purposes
  - ☒ And, tax purposes (accounting)
- ⌘ Lenders **demand** accurate bookkeeping

## Bookkeeping vs. Accounting

### ⌘ Bookkeeping

- ☒ compiling all business transactions
- ☒ categorizing the transactions
  - assets, liabilities, income and expenses
- ☒ cash flow, profitability and value of the business

### ⌘ Accounting

- ☒ tax considerations

## Compiling the Financial Information

### ⌘ Methods

- ☒ Manual books
  - ☒ General Journal
    - Record the daily income of the business
    - Record the daily expenditure of the business
  - ☒ General Ledger
  - ☒ Inventory Records
  - ☒ Accounts Receivable
    - Records money others owe the business
  - ☒ Accounts Payable
    - Records money you owe to others

### ⌘ Computerized Systems

- ☒ Spreadsheet
  - ☒ Excel and Others
- ☒ Special Bookkeeping Programs
  - QuickBooks (or Quicken)
  - Managing Your Money
  - Others

⌘ **Separate business and personal books**

## Types of Accounts

- ⌘ Assets (1000)
- ⌘ Liabilities (2000)
- ⌘ Capital (3000)
- ⌘ Revenue (4000)
- ⌘ Expenses (5000)

## Fundamental

### ⌘ Equity = Assets – Liabilities

- ☒ Equity – owner's investment in the business
- ☒ Assets – anything of worth owned by the business
- ☒ Liability – debt of the business

### ⌘ Profit = Revenue – Expenses

- ☒ Profit – financial gain
  - ☒ (-) loan payments and (-) income taxes
- ☒ Revenue – sales during a period of time
- ☒ Expenses – costs of producing revenue

## Recording Transactions

### ⌘ Assets (100) and Expenses (500)

- ☒ Debits = increases
- ☒ Credits = decrease

### ⌘ Liabilities (200), Capital (300), Revenue (400)

- ☒ Debits = decreases
- ☒ Credits = increases

## Assets (anything of worth)

### ⌘ Current Assets

- ☒ Valuable resources or property that can be turned into cash within one year
- ☒ Examples
  - ☒ Checking
  - ☒ Savings
  - ☒ Grain, hay, and cattle inventory

## Assets

### ⌘ Intermediate Assets

- ☒ Valuable resources or property than can turned into cash in more than one year
- ☒ Examples
  - ☒ Cows/bulls
  - ☒ Machinery and equipment
  - ☒ Vehicles

## Assets

### ⌘ Long Term

- ☒ Valuable resources or property than can be turned into cash in several years
- ☒ Examples
  - ☒ Land (real estate)
  - ☒ Improvement

## Liabilities (debts of the business)

### ⌘ Current Liability

- ☒ Amount owed that will be paid in one year
- ☒ Examples
  - ☒ Accounts payable (Farmer's Oil Company bill)
  - ☒ Taxes payable
  - ☒ Interest (operating, equipment, land loans)

## Liabilities

### ⌘ Intermediate/Long Term

☒ Amount owed that will be paid in more than one year

#### ☒ Examples

- ☒ Equipment
- ☒ Mortgages
  - Land
  - Buildings

## Revenue (Income)

### ⌘ Total sales during the year

#### ☒ Examples

- ☒ Crop and livestock sales
- ☒ Agricultural program payment
- ☒ Crop insurance proceeds
- ☒ Other income

## Expenses

### ⌘ Cost of producing revenue

#### ☒ Examples

- ☒ Feed, fertilizer, seed, fuel, oil, insurance, rent, utilities, taxes
- ☒ Hired labor
- ☒ Interest on loans
- ☒ Depreciation

## Capital (Equity)

### ⌘ Owner's investment in the business

#### ☒ Assets - Liabilities

#### ☒ Examples

- ☒ Personal investments in business (savings)
- ☒ Earning (profits) of the business

## Chart of Accounts (*today*)

Name	Type	Balance
☒ Checking	Asset	0.00
☒ Credit card	Asset	0.00
☒ Equipment	Asset	0.00
☒ Unsold wheat	Asset	0.00
☒ Unused supplies	Asset	0.00
☒ Credit card payable	Liability	0.00
☒ Accounts payable	Liability	0.00
☒ Notes payable	Liability	0.00
☒ Payroll taxes payable	Liability	0.00
☒ Equity	Capital	0.00

## Chart of Accounts

Name	Type	Balance
☒ Sales	Income	0.00
☒ Depreciation	Expense	0.00
☒ Fuel	Expense	0.00
☒ Interest	Expense	0.00
☒ Labor (contract)	Expense	0.00
☒ Payroll taxes	Expense	0.00
☒ Repairs	Expense	0.00
☒ Supplies	Expense	0.00

## Transactions

⌘ Open a bank account

Deposit \$20,000 from personal savings into the business checking account

<input checked="" type="checkbox"/>	Debit	Credit
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Checking

Equity

## Answer

⌘ Open a bank account

Deposit \$20,000 from personal savings into the business checking account

<input checked="" type="checkbox"/>	Debit	Credit
-------------------------------------	-------	--------

Checking \$20,000

Equity \$20,000

How much money do you have in your checking account now?

## Transaction

⌘ Purchase equipment (\$5,000) using money in the checking account

<input checked="" type="checkbox"/>	Debit	Credit
-------------------------------------	-------	--------

Checking

Equipment

Asset or expense???

## Answer

⌘ Purchase equipment (\$5,000) using money in the checking account

<input checked="" type="checkbox"/>	Debit	Credit
-------------------------------------	-------	--------

Checking \$5,000

Equipment \$5,000

How much money do you have in your checking account now?

## Transaction

⌘ Purchase equipment (\$10,000) with a loan from the bank

<input checked="" type="checkbox"/>	Debit	Credit
-------------------------------------	-------	--------

Note payable (bank)

Equipment

## Answer

⌘ Purchase equipment (\$10,000) with a loan from the bank

<input checked="" type="checkbox"/>	Debit	Credit
-------------------------------------	-------	--------

Note payable (bank) \$10,000

Equipment \$10,000

How much money do you have in your checking account now?

## Transaction

⌘ Purchase **contract** labor (\$1,000) using money from the checking account

<input type="checkbox"/>		Debit	Credit
<input type="checkbox"/>	Checking		
<input type="checkbox"/>			
<input type="checkbox"/>	Contract labor		

## Answer

⌘ Purchase **contract** labor (\$1,000) using money from the checking account

<input type="checkbox"/>		Debit	Credit
<input type="checkbox"/>	Checking		\$1,000
<input type="checkbox"/>	Contract labor	\$1,000	

How much money do you have in your checking account now?

## Transaction

⌘ Purchase fuel (\$1,000) using a credit card

<input type="checkbox"/>		Debit	Credit
<input type="checkbox"/>	Credit card		
<input type="checkbox"/>			
<input type="checkbox"/>	Fuel		

## Answer

⌘ Purchase fuel (\$1,000) using a credit card

<input type="checkbox"/>		Debit	Credit
<input type="checkbox"/>	Credit card		\$1,000
<input type="checkbox"/>	Fuel expenses	\$1,000	

How much money do you have in your checking account now?

## Transaction (accrual)

⌘ Repairs (\$500) are completed on the tractor, but you still owe Dave's Repair, Inc.

<input type="checkbox"/>		Debit	Credit
<input type="checkbox"/>	Accounts payable		
<input type="checkbox"/>			
<input type="checkbox"/>	Repair expense		

## Transaction (accrual)

⌘ Repairs (\$500) are completed on the tractor, but you still owe Dave's Repair, Inc.

<input type="checkbox"/>		Debit	Credit
<input type="checkbox"/>	Accounts payable		\$500
<input type="checkbox"/>	Repair expense (adj)	\$500	

How much money do you have in your checking account now?

## Transaction

⌘ Pay Dave's Repair, Inc. \$500 for the repairs

	Debit	Credit
☒ Accounts payable	\$500	
☒ Checking		\$500

How much money do you have in your checking account now?

☒

## Transaction

⌘ Deposit money from wheat sales (\$10,000) into checking account

	Debit	Credit
☒ Checking		
☒ Wheat sales		

## Answer

⌘ Deposit money from wheat sales (\$10,000) into checking account

	Debit	Credit
☒ Checking	\$10,000	
☒ Wheat sales		\$10,000

How much money do you have in your checking account now?

## Transaction

⌘ Unsold wheat inventory (\$5,000)

	Debit	Credit
☒ Unsold wheat (adj)		
☒ Equity		

## Answer

⌘ Unsold wheat inventory (\$5,000)

	Debit	Credit
☒ Unsold wheat (adj)	\$5,000	
☒ Equity		\$5,000

How much money do you have in your checking account now?

## Transaction

⌘ Unused animal feed (\$1,000) at the end of the year

	Debit	Credit
☒ Unused feed		
☒ Equity		

## Answer

⌘ Unused animal feed (\$1,000) at the end of the year

	Debit	Credit
☒ Unused feed	\$1,000	
☒ Equity (adj)		\$1,000

How much money do you have in your checking account now?

## Transaction

⌘ End of the year – taking depreciation (\$2,000) on equipment

	Debit	Credit
☒ Depreciation expense		
☒ Equity		

## Answer

⌘ End of the year – taking depreciation (\$2,000) on equipment

	Debit	Credit
☒ Depreciation expense	\$2,000	
☒ Equipment (asset)		\$2,000

How much money do you have in your checking account now?

## Transactions

⌘ Paying the bank

- ☒ Principal and interest
- ☒ Principal is a liability
- ☒ Interest is an expense

## Transaction

⌘ Paying the bank - \$10,000 principal and \$1,000 interest

	Debit	Credit
☒ Bank loan		
☒ Interest expense		
☒ Checking		

## Answer

⌘ Paying the bank - \$10,000 principal and \$1,000 interest

	Debit	Credit
☒ Bank loan	\$10,000	
☒ Interest expense	1,000	
☒ Checking		\$11,000

How much money do you have in your checking account now?

## Transaction

⌘ Paying yourself – withdrawal (\$2,000)

- |                                   |       |
|-----------------------------------|-------|
| <input type="checkbox"/> Credit   | Debit |
| <input type="checkbox"/> Equity   |       |
| <input type="checkbox"/> Checking |       |

## Answer

⌘ Paying yourself – withdrawal (\$2,000)

- |                                   |         |         |
|-----------------------------------|---------|---------|
| <input type="checkbox"/> Credit   |         | Debit   |
| <input type="checkbox"/> Equity   | \$2,000 |         |
| <input type="checkbox"/> Checking |         | \$2,000 |

How much money do you have in your checking account now?

## Transaction

⌘ Selling Culled Breeding Livestock – sell 5 cows for \$2,500, which you purchased for \$1,000 each

- |  | Debit | Credit |
|--|-------|--------|
| <input type="checkbox"/> Livestock Sales           |       |        |
| <input type="checkbox"/> Breeding Livestock (cows) |       |        |
| <input type="checkbox"/> Checking                  |       |        |

## Answer

⌘ Selling Culled Breeding Livestock – sell 5 cows for \$2,500, which you purchased for \$1,000 each

- |   | Debit   | Credit  |
|---|---------|---------|
| <input type="checkbox"/> Livestock Sales (loss) | \$2,500 |         |
| <input type="checkbox"/> Breeding Livestock     |         | \$5,000 |
| <input type="checkbox"/> Checking               | \$2,500 |         |

## Payroll

### Independent Contractors Employees

## Independent Contractor???

⌘ Twenty Common Law Factors (Rev Rul 87-41)

- No instructions
- No training
- The work being performed is not essential to the hiring firm
- Own work hours
- And many more



## Independent Contractor

### ⌘ Benefits

- Save money
  - No FICA, U.E., W.C. or other benefits
- Less commitment
- Less liability
- No unions

### ⌘ Risks

- Government fines
  - Avoid paying taxes
- Lawsuits
- Less control
- Limited right to fire

## Expenses requiring more work

### ⌘ Payroll

- ☒ Pay the employee
- ☒ Pay the State of Montana
  - ☒ Department of Revenue
  - ☒ Workman's Compensation fund
  - ☒ Unemployment fund

### ☒ Pay the Federal Government

- ☒ IRS
- ☒ Unemployment
- ☒ Social Security
- ☒ Medicare

### ☒ Pay Others

- ☒ Health insurance
- ☒ Private pension plans

## Payroll Calculations

⌘ Gross salary		\$2,000
☒ less:		
☒ FICA		153
• Medicare	1.45 %	
• Social Security	6.20 %	
☒ Federal Income Taxes		197
☒ Montana Income Taxes		<u>76</u>
• Total FICA and Withholding		426
☒ Take home pay		<b>\$1,574.00</b>

## Business Obligations

☒ FICA (match)	153.00
☒ State Unemployment <ul style="list-style-type: none"> <li>• 1.8 %</li> </ul>	36.00
☒ Federal Unemployment <ul style="list-style-type: none"> <li>• 0.8 %</li> </ul>	16.00
☒ Workman's Compensation	200.00
☒ <b>Total Other Payroll Costs</b>	<b>405.00</b>

## Total Payroll Costs for the Business

⌘ Gross Salary	\$2,000
⌘ Other payroll expenses	405
⌘ Total	<b>2,405</b>

## Accounting Entries

⌘ Two steps (where are debits and credits)

☒ Labor	2,000
☒ Payroll taxes payable	426
☒ Cash	1,574
☒ Payroll taxes expense	
405	
☒ Payroll taxes payable	426
☒ Cash	831

## Summary Bookkeeping

Questions?