

Using QuickBooks™ for Farm Recordkeeping: Considerations for Getting Started

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Farms of all types are choosing QuickBooks™ for their business accounting purposes. QuickBooks™ is a computer-based software program developed by Intuit® for small to medium-sized businesses. QuickBooks™ offers an efficient and organized method for monitoring the cash flow of a farm business. QuickBooks™ makes it easy to generate reports such as the Profit and Loss Statement and Balance Sheets which can help with end-of-year tax prep. QuickBooks™ uses a double-entry system meaning every transaction is recorded twice—usually as a debit and a credit, making it a “self-balancing” approach to bookkeeping¹. The software works for both accrual and

cash methods of accounting and allows for reporting using each method. When QuickBooks™ is set up to accurately reflect the different enterprises, revenue streams, and expenses of the farm it becomes a powerful tool. The objective of this fact sheet is to focus on a few of the aspects that often create barriers for new users such as evaluating the different versions of QuickBooks™ available and setting up the Chart of Accounts (COA) to be reflective of the farm business.

Choosing the Right Fit

The variety and types of QuickBooks™ versions available can be overwhelming and confusing. QuickBooks™ isn't a one-operating system-fits-all application. In fact a different software package exists for Windows and Macintosh operating systems. Select the version specific to your system. Note that Intuit® releases new versions of QuickBooks™ each year. Selecting the latest version is recommended, but you should be able to use it for years to come. There are also two different types of QuickBooks™ — a Desktop type and a cloud-based Online type.

Desktop versus Online

There are various factors to consider in choosing between Desktop and Online. Desktop is one-time, downloadable software whereas Online is cloud-based meaning it can be accessed wherever there is an internet connection. Unfortunately, the Desktop and Online types are not identical; they look and navigate quite



Table 1. Considerations for selecting the Desktop versus Online version of QuickBooks™.

Consideration	QuickBooks™ *	
	Desktop	Online
Available for PC and Macintosh?	Yes	Yes
Cost	One-time fee	Monthly fee
Internet connection	Not required but recommended	Required
Log-in	From computer	From computer or web-enabled device
Access	Only from the computer the software is downloaded onto	Cloud-based. Multiple users can access from cloud
User interface	More features; easy to navigate ²	Less features; more difficult to navigate ²
Automatically download bank transactions?	Yes	Yes
Backup	User must create and save backups	Automatically backed-up on the cloud
Allows more than one user at a time?	One user included; option to add two more (at cost)	Yes
Do you want QuickBooks™ to...		
Be accessible from a smartphone or tablet?	Not possible	Possible
Import Square sales directly into QB?	Possible with 3rd party integration software (at cost)	Yes, using the Sync with Square app (free)
*As of January, 2019.		

differently and these features are outlined in Table 1. Lastly, those in the market for QuickBooks™ will notice that there are a variety of versions available for Desktop and Online. Many farmers have had success using the Pro and Simple Start versions. Review the features of each, and, if you work with an accountant — seek their perspective on which type and version of QuickBooks™ they prefer to work with.

Setting Up a Company File

After QuickBooks™ has been downloaded the user will be prompted to set up a company file. A company file will contain the financial information about the business. Here are a few key areas to consider:

- **Industry:** for a farm business select Agriculture, Ranching, or Farming. This will select the default accounts generally related to the farm business and those that will show on the Schedule F income and expense accounts³.

- **Business organization:** choose your type and QuickBooks™ will select the tax forms associated with the organization.
- **Set an appropriate start date:** the start date will depend on a few factors. When it's early in the year choose the first day of your current fiscal or calendar year because this will mean less historical transactions to enter. If beginning with QuickBooks™ later in the year, it may be good to start at the beginning of an accounting period, such as the first of the month, because this will save time on entering historical transactions⁴.
- **Selecting features:** during the set-up, QuickBooks™ will also prompt you to decide on a number of features such as creating invoices, tracking inventory and time. Many of these features you'll need but some may be extraneous. Think carefully about your business needs and accept what you need at the time. You can always re-select these features later. Keeping it simple is a good rule of thumb.

Chart of Accounts

The Chart of Accounts, often referred to as the COA, is the foundation of the QuickBooks™ accounting system because it is a list of accounts that are relevant to your business. Setting up the COA correctly from the beginning will give you the power to understand the profitability of the business. Failing to do so will mean the reports generated may be inaccurate.

COA Account Structure

By selecting Agriculture, Ranching, or Farming during the initial company set-up, the options will be modified to provide a set of income and expense accounts that match the Schedule F tax form. QuickBooks™ has “default” Account Names but these can and should be modified by the user to provide more detail to the user. As new accounts arise or changes occur, accounts can be added or edited on the fly. Table 2 lists some of the different account names and types included in QuickBooks™. There are two main account types and these represent what is on the Balance Sheet and the Income and Expense Accounts. Each Balance Sheet account has its own register to track transactions and

balances by account. The Balance Totals are available for assets, liability and equity accounts⁴. The Income and Expense Accounts track the source of the company's income and expenses. The Income and Expense Accounts do not have their own register and thus there are no Balance Totals.

COA Tips

- **Keep the COA short and organized.** Adding sub-accounts, such as “farmer's market” and “wholesale” to parent accounts such as “sales” can provide more information about which sales channels are most profitable without making the list of accounts too lengthy (Table 2). What if you want to track sales by specific enterprises such as eggs sales versus vegetables sales? In this case, Class Tracking should be used to track revenue by product type. Visit the Preferences tab to turn “on” Class Tracking.
- **Avoid assigning the wrong type of account to a new account.** This is a common mistake that may result in accounts showing in the wrong reports. For example, an account that should show in the Balance Sheet may appear in the Profit and Loss Report if it has been mislabeled.
- **Enter correct starting balances.** When transitioning from another recordkeeping system to QuickBooks™ decide on a date to restart your books such as the first day of the current fiscal year. Find the beginning statement for each bank statement, credit card and loan. This will help when entering the correct beginning balances for the balance sheet items.
- **Use the *Ask My Accountant* account.** To code questionable transactions that should be revisited with a professional.

Table 2. Chart of Accounts example for a farm².

Sales	Income	
→ Farmers market sales	Income	
→ Wholesale sales	Income	
<i>Other Income</i>	Other Income	
→ Crop Insurance Proceeds	Other Income	
→ Fuel Tax Credits	Other Income	
Veggies purchased for resale	Cost of Goods Sold	
<i>Direct Operating</i>	Expense	
→ Fertilizers and lime	Expense	
→ Storage and warehousing	Expense	
→ Freight and trucking	Expense	
<i>Administrative</i>	Expense	
→ Professional services	Expense	
→ Insurance fees	Expense	
→ Internet/website fees	Expense	
<i>Land/Tenancy</i>	Expense	
→ Rent	Expense	
→ Utilities	Expense	
<i>Fixed Asset</i>	Fixed Asset	
→ High tunnel	Fixed Asset	\$15,000.00
→ Farm equipment	Fixed Asset	\$50,000.00
Owner's Equity	Equity	\$100,000.00
<i>Long term liability</i>	Long term liability	
→ Mortgage	Long term liability	\$100,000.00
→ Equipment loan	Long term liability	\$50,000.00
Savings account	Bank	\$12,000.00
Credit card	Credit Card	\$3,000.00
Interest expense	Other Expense	
Ask My Accountant	Other Expense	
→ <i>indicates a sub-account.</i>		

Avoiding Common Pitfalls with QuickBooks™

Before adopting a new recordkeeping system such as QuickBooks™, it is important to step back and consider the big picture. A “good” record keeping system is one that is simple, reliable and understandable to others. It is not uncommon to get off on the wrong foot by overlooking a few key items that can put holes in your recordkeeping system and distort the farm’s financial picture.

- **Reconcile your accounts.** The accuracy of your record keeping system is only as good as the accuracy of the records used and how consistently records are entered. Get in a routine. On a daily basis, take the time to enter income and expenses. Schedule time aside every week to pay bills and once a month to reconcile your accounts. Every transaction in QuickBooks™ must be checked and matched to bank records in order for the register to be accurate. This not only means your bank statements but also loans and taxes. For managing transactions that occur every month for the same amount such as an internet bill, QuickBooks™ has a Memorized Transactions option to automate the transaction entry.
- **Don’t Co-Mingle Personal and Work Finances.** When first starting a business it’s common to take money from personal savings to make purchases, or, to use one credit card for household and business purchases. Keep personal and business purchases separate as much as possible. If personal money is used for start-up costs then categorize it as a loan. Open a bank account or credit card that is strictly used for farm purchases. If you must use personal money, record it using the Journal Entry Module in QuickBooks™.
- **Back Up Your Company File.** On a daily basis save a backup of QuickBooks™ on an external hard drive or thumb drive in order to protect against a computer crash. Also, because transactions in QuickBooks™ are linked it is often better to fix mistakes through editing instead of deleting transactions.

- **Ask for Help When Needed.** Having a bookkeeper or accountant assist in setting up QuickBooks™ can be money well spent and time saved. Many accountants are willing to help you set up your COA from the beginning to ensure you are recording the appropriate data. Look for assistance from someone who has a QuickBooks ProAdvisor certification.

References

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Funding for this fact sheet was provided by the USDA Farm Service Agency, Increasing Access to Risk Management Programs through Record Keeping Education, Federal Award #: FA-ME-7-034.

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