

TelFarm Newsletter

Volume 20, Issue 2

Fall 2020

Important Dates for Year-End

Late October:

If you are on Pc Mars and would like your accounting records reviewed prior to receiving tentative reports,

please submit a back-up to the TelFarm Center by Monday, October 26, 2020.

Files received after this date will not be reviewed, they will only be printed as is for tentative tax documents. If

you submit them for review and have resulting updates to your books, please re-send an updated copy of your books by Monday, November 9, 2020.

Early November:

Accounting and depreciation transactions are due in the TelFarm office on or before Monday, November 9, 2020 (must be in office by then, not postmarked by) in order for you to receive:



- Cash Flow Report
- Tentative Tax Planning Package
- Depreciation Schedule

We will only print accounting reports for clients that have submitted books/records to us completed through at least September. All clients will still receive tentative depreciation schedules and tax planning handouts.

Week of Thanksgiving:

Items mailed to clients:

- Tentative Tax Planning Packages and Depreciation Schedules
- 2021 Enrollment Contracts

December:

- Tax planning meetings by local or Farm Business Management Educators. Submit your changes

in accounting and depreciation made during tax planning meetings to TelFarm upon completion.

- Enrollments due by Monday, December 14, for 2021 year. (A signed enrollment contract is needed to get supplies)

January:

- Employers prepare W2s and give to employees and SSA by January 31, 2021 as well as Form 943 to the IRS.
- Furnish 1099s to recipients and 1099-MISC for employee compensation to the IRS by January 31, 2021.

February:

Tax Package Deadline - final 2020 records are due at the TelFarm office on or before Monday, February 8, 2021 in order for you to have some time to file and pay taxes by March 1, 2021 to the IRS.

Changes coming to TelFarm Program

To better meet our individual cooperator office setups, the TelFarm Program has added an option to use QuickBooks for tracking your financial transactions on your computer. This allows for two software platforms to participate in the TelFarm Program, depending on what is the best option for your farm. Both the PcMars and QuickBooks options are priced the same, at \$550 per year. With either option you will still receive the many benefits of the TelFarm Program including:

- Records review and business consulting by TelFarm staff or Farm Business Management Educators year round
- Off-farm records backup
- Year-end tax planning with MSUE
- Year-end FINAN business analysis using your balance sheets and accounting records
- Tentative and final depreciation reports
- Updates on new tax/legal regulations
- Application and record entry of agricultural programs
- Payroll support and assistance with reports and tax forms

Both options require you to do software updates, payments, etc., directly with the software vendor, separate from the TelFarm enrollment. Contact us if you have any problems.

Changes, continued on next page

Changes, Continued from previous page

Some overall observations of the two different options:

PcMars

PcMars is easier for agricultural entries, as it is farm accounting software designed specifically for farm applications. It tracks two separate quantities within the transactions, i.e. head and weight. This makes the capture and analysis of farm financial data at the end of the year easier for the PcMars option, especially when tracking production data with the dollar amounts.

Special transactions guides are available for CCC loans, capital purchases with or without trades or financing, and coop patronage dividends

received. Help and support is also readily available from the home office in Iowa for especially difficult issues such as data recovery or computer failures.

QuickBooks

Widely popular across the country with all types of businesses. There are extensive resources with Intuit and other supporting advisors online. Many tax professionals have the ability to electronically import the transaction history and account totals for easier preparation of your income tax return. This makes it the preferred option by many tax professionals.

Both Options

A suggested chart of accounts is provided with both options that can be modified with care and/or advice.

Summarization and financial statement problems can develop if modifications to the chart of accounts are made that do not follow procedures embedded in the TelFarm Program.

Ease of transaction entry is often cited as a benefit for both options. Both options provide extensive vendor tracking and auto-fill capabilities. Memorized "suggested" accounts can be tied to vendors as part of both programs as well as computer check printing for quick bill payment. We do not see ease of entry as an advantage for QuickBooks that is often cited.

Please talk with your District Farm Business Management Educator for more information that will help guide you in your decision.

2019 Farm Financial Benchmarking Results

There is an old saying, "Before you can see where you're going, you have to know where you've been."

The past several years have been tough for Michigan farms. Challenges ranging from high ending stocks to impacts from foreign trade have caused lower prices across most commodities. These low prices have resulted in low farm profits, making it difficult to cover cash flow needs and limit growth for many farm businesses. The level of these impacts has varied widely between farm types and individual farms. With additional market stresses brought on by Covid-19, understanding farm trends has never been

more important to the future success of a farm business.

Where does a farm manager begin to start understanding these trends?

One place to look is in the 2019 Michigan Farm Business Summary report (<https://www.canr.msu.edu/resources/2019-farm-business-analysis-summary-report>) just released by MSU Extension and the MSU TelFarm Program. This is a collection of individual in-depth farm analyses from all across Michigan. Not only does it provide a look at other farms, it also offers insight into the market conditions that ex-

ist within similar industries.

For example, Michigan farms have seen a trend of declining profits since 2016 due to many of the economic challenges already mentioned. In 2019, these economic challenges were not only still present, but Michigan had the added impact of an overabundance of rainfall and flooding. This severe weather resulted in a significant number of farms taking advantage of preventative planting, which lowered potential revenues for many crop farms across the state. However, the report indicates that the average net farm income and cash flow margins for Michigan farms increased in 2019.

Table 1. Highlights of the Farm Business Analysis Report

	2017	2018	2019	Vulnerable values
All Farms				
Net Farm Income	\$88,196	\$49,912	\$125,800	Negative
Return on Farm Assets (FMV)	1.5	0.3	2.4	Less than interest rate on borrowed funds
Current Ratio	2.02	1.96	2.25	Less than 1.3%
Working Capital to Gross Income	25.3%	25.8%	28.1%	Less than 11.0%
Farm Debt to Asset Ratio	28%	28%	26%	Greater than 60.0%

Table 2. Farm Financial Performance Measures from Farm Business Analysis Report

	2017	2018	2019	Vulnerable values
Crop Farms				
Net Farm Income	\$77,293	\$144,619	\$109,096	Negative
Return on Farm Assets (FMV)	1.7	2.8	2.0	Less than interest rate on borrowed funds
Current Ratio	2.1%	2.0%	2.31%	Less than 1.3%
Working Capital to Gross Income	36.5%	33.7%	39.7%	Less than 11.0%
Farm Debt to Asset Ratio	26.0%	26.0%	23%	Greater than 60.0%
Dairy Farms				
Net Farm Income	\$142,861	\$(38,078)	\$234,603	Negative
Return on Farm Assets (FMV)	2.3	-1.8	2.9	Less than interest rate on borrowed funds
Current Ratio	2.0%	2.0%	2.39%	Less than 1.3%
Working Capital to Gross Income	18.6%	18.6%	18.7%	Less than 11.0%
Farm Debt to Asset Ratio	29.0%	28.0%	29%	Greater than 60.0%

What caused this to happen? A closer look at the report reveals that the farm enterprises within Michigan provide the answer.

In 2019, the dairy industry saw a significant shift in both its net income and cash flow margin levels. After seeing net farm incomes fall to negative levels in 2018, both the average net farm income and cash flow margins increased to positive levels in 2019. Several factors contributed to these increases, including higher cull sales, increased government payments, and an increase in the price of milk. The price of milk is the most noteworthy as the average price per cwt rose from \$14.81 in 2018 to an average of \$17.41 in 2019. This increase in revenue offset the reductions in both net farm income and cash flow margin experienced by crop farms.

While this information is helpful in understanding market conditions, the real benefit is being able to compare against an individual's own farm. To do this, MSU Extension recommends performing a financial analysis of the farm business. A financial analysis provides an in-depth look at where the operation is financially and provides the same information as other farms seen in the report.

Performing a financial analysis also provides an opportunity to review the cost of production of the farm's different crop or livestock enterprises. It allows operations to see what makes similar farms successful and understand where efforts to improve could begin. For example, the average land rent for all crop farms is calculated at \$198 per acre. In comparison to the lower 33% of

farms, land rent payments are calculated closer to \$261 per acre. For farms with higher than average land rent payments, are there opportunities to reduce rental costs by reviewing rental agreements with landowners?

Finally, a financial analysis can help you determine how profitable the farm business is when considering borrowed debt. A farm's rate of return on assets should be greater than the average interest rate on borrowed capital, so that interest is not eroding away the value of the farm assets. For instance, in 2019 the average rate of return on assets for grain farms was 2.4%. If the average interest rate on farm debt is 5%, then all of the farm's profits went towards paying interest.

QuickBooks will be a TelFarm option

The TelFarm Staff and the District Farm Business Management Educators are working on a "Farmers Guide to QuickBooks" manual for Michigan. This manual will include some basic and some advanced training on how to set up and use QuickBooks for farm application. We are developing a standardized

chart of accounts that mirrors what is offered in PcMars.

PcMars is still our preferred software platform, however, this new option will allow us to serve a larger cooperator base. Additional



information on this option will be available when we are closer to launching it. We recommend talking with your District Farm Business Management Educator about the best option for your farm.

TelFarm Check-In Meetings will be different

The Covid-19 health concerns will provide opportunities to do the TelFarm Check-In in new ways. We must follow guidelines to ensure the best possible safety for our TelFarm cooperators and our MSUE personnel.

There will be three TelFarm Check-In options :

1. **Use live Zoom video conference.**
 - Share computer screen with live video of participants and live voice. (This option requires hi-speed internet access
 - Output of meeting emailed to you via PDF files
2. **Phone call/s**
 - Voice only
 - All information sent ahead of time
 - Output of meeting emailed to you via PDF files or by US Mail

3. **Face to face meeting**
 - Covid-19 social distancing requirements, including face mask, 6 feet apart and hand sanitation, are required.
 - Appropriate Covid -19 screening forms
 - This may be at the Extension office, or in special situations, at your farm.

For all three options, we will need the same items sent to your District Farm Business Management Educator in advance or brought with you to your appointment, which includes:

- Current back-up of your accounting on a USB flash drive or “thumb drive”.
- 2020 Tentative Depreciation Schedule
- Projected income/expenses/capital



- purchases/sales for the rest of the year that are not entered into accounting software
 - ◊ What cash flow activity is flexible between 2020 and 2021?
- Last year’s Income Tax Return and/or estimate of non-farm taxable activities.

We look forward to working with you to answer questions, review your records and develop the best income tax strategy for your operation.

We appreciate your cooperation in these challenging times and look forward to meeting with you using one of the three meeting options. Look for details and scheduling from your District Farm Business Management Educator.

MSU Farm Business Management News Digest

Michigan State University Extension connects the people of Michigan and throughout the world with the latest in news, research and analysis from MSU Extension's vast network of

educators and specialists in the field of farm business. To stay up to date with the latest farm business news, events, and decision tools from MSU Extension, sign up today for the

MSU Farm Business Management News Digest. Simply follow the link and subscribe: https://www.canr.msu.edu/outreach/about/get_involved.

MSU is officially closed on these days:

Thanksgiving –
November 26 & 27

Christmas –
December 24 & 25

New Years—
December 31 & January 1

Wishing you a safe harvest season this fall!

**Current
PcMars
Software
Version is
3.0.4.0**

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