

University of Nebraska - Lincoln

DigitalCommons@University of Nebraska - Lincoln

Historical Materials from University of Nebraska-
Lincoln Extension

Extension

9-1938

EC1196 Farm and Home Money Management

Muriel Smith

A. G. George

Follow this and additional works at: <http://digitalcommons.unl.edu/extensionhist>

Smith, Muriel and George, A. G., "EC1196 Farm and Home Money Management" (1938). *Historical Materials from University of Nebraska-Lincoln Extension*. 2435.

<http://digitalcommons.unl.edu/extensionhist/2435>

This Article is brought to you for free and open access by the Extension at DigitalCommons@University of Nebraska - Lincoln. It has been accepted for inclusion in Historical Materials from University of Nebraska-Lincoln Extension by an authorized administrator of DigitalCommons@University of Nebraska - Lincoln.

AGRI
S
85
E7
#1196
Extension Circular 1196

Discard
September 1938

RECEIVED
MAY 27 1938
COLLEGE OF AGRICULTURE
LIBRARY

FARM *and* HOME MONEY MANAGEMENT



The University of Nebraska Agricultural College Extension Service
and United States Department of Agriculture Cooperating
W. H. Brokaw, Director, Lincoln

CONTENTS

	Page
The Farm and Home, a Business Unit.....	3
Sources of Income.....	3
Increasing the Income.....	4
Measuring Financial Progress.....	5
When Should a Family Use Credit?.....	7
Save by Planning.....	8
Reasons for Having a Spending Plan.....	8
How to Make a Spending Plan.....	9
How to Follow the Plan.....	12
References	12

Farm and Home Money Management

MURIEL SMITH AND A. G. GEORGE

THE average Nebraska farm-and-home unit produces the equivalent of from \$2,000 to \$3,000 annually. The managers of this farm-and-home business have the responsibility of wisely administering it. The managers of this business, be it on a large or a small scale, are husband and wife with their children. Each member of the family may contribute to the business, and all receive benefits. The management phases of this business are interrelated. *The problems of the home cannot be considered independently of the problems of the farm business.*

THE FARM AND HOME, A BUSINESS UNIT

Decisions made in connection with earning, spending, saving, investing, or borrowing for either the farm or the home, need the careful consideration of the managers. The wise management of this concern is influenced by what the family wishes to accomplish. Wise management of money affairs lies in the hands of members of the family. A decision that may be wise for a family at one time may be unwise at another time because of a change of conditions or a change in plans. When aims are clearly understood and all managers have a part in formulating the policies of the business, the operation of its various phases proceeds as a unit.

The following information will be found useful by the managers of any farm and home business:

An itemized statement of what is owned and what is owed. This is a net-worth statement.

Figures as to the distribution of the last year's gross cash income for farm expenses, family living, payments of debts, improvement for farm or home, or for savings.

A farm-and-home spending plan.

SOURCES OF INCOME

How many sources of income does the family now have? The following list offers an opportunity to check possible sources of income:

Farm Business Income

Cattle
Hogs
Sheep
Poultry
Eggs
Milk and cream
Corn
Wheat
Hay
Potatoes
Beets
Other crops
Labor off the farm
Miscellaneous receipts

Town Business Income

Salary or fees
Wages
Business profits
Commissions

Personal Earnings

The following are some examples of personal earnings which homemakers may have and which contribute to the family's income:

Room rent
Board from others
Substitute teaching
Sewing
Nursing

Sale of products made
Sale of products raised
Music lessons given
Prizes won
Writing news for community

Outside Sources

Cash income other than the business
Dividends
Investments
Inheritance
Sale of other property
Gifts of money received
Other sources

Goods and Services from the Farm

Poultry products:	Garden:	Shelter:
Eggs	Fruit	Rented—as part of the
Poultry meat	Vegetables	farm
Home butchered meat:	Dairy products:	Owned—included in the
Beef	Milk	farm valuation
Pork	Cream	Fuel:
Mutton	Butter	Cobs
	Cheese	Wood

INCREASING THE INCOME

What are the possibilities for increasing both the amount and security of income? Managers of any business continually face this problem. The study of financial records of past years and a view of the complete business as shown by a net-worth statement are two valuable aids to indicate needed changes. The family needs to study this list of sources suggested, and then decide upon one or two which can be added to their plan in order to increase the income in the future.

Because of influences beyond their control, the farm family cannot always increase income at will. In the long run, however, the application of sound farm management principles will result in larger income.

Farm and home net income is increased when expenditures are reduced. Expenditures of the farm family for food and fuel can often be reduced if the use of home products is increased. By the wise use of home products the total income is increased.

Sometimes it is good business to spend money in order to increase the net income. Such instances would be the purchase of protein supplements to balance livestock rations properly, the purchase of good seed when that produced at home is inferior in quality, the hiring of extra help at critical times when delay would result in loss, or the purchase of dependable, efficient equipment to care properly for an important crop or other enterprise.

It is desirable to hold expenditures at a minimum when doing so does not reduce income. Worth-while savings can be made by doing much repair work at home, by producing and using home-grown feeds, by mixing home-produced feeds rather than buying high-priced ready-mixed feeds. Here are further suggestions:

Increase the size of the farm business to a point that fully utilizes the equipment and available family labor. This may be done in several ways.

Increase the area of the farm by renting additional land. Very often this method cannot be used, because it is obvious that it is impossible for all farmers to rent additional land.

Increase crop yields by the use of better seed, by planting adapted varieties, by crop rotations, by proper tillage practices, and by other means that may suggest themselves from time to time.

Maintain a proper balance of livestock with crop production.

Study the business through use of records.

Make practical application of outlook and other economic information so that production will harmonize with market demands.

WHEN SHOULD A FAMILY USE CREDIT?

Most families and most businesses find that it is impossible to keep an equal balance at all times between income and expenditure. The changes in needs, in prices, and in income call for continuous adjustment. There are two ways of keeping available money in line with the expenditures. One is to save in advance for anticipated expenditures; the other is to anticipate future income by the use of credit.

The four "C's" of credit are character, capacity, capital, and collateral. Every family that asks for credit is questioned on these four points.

Character means willingness and determination to repay a loan, even though it be at greater cost than the borrower anticipated.

Capacity means ability to meet an obligation when it is due. This may depend not so much upon total income as upon the available margin above necessary expenses.

Capital means net worth, which is the difference between what the family owns and what it owes.

Collateral consists of specific units of capital which may be pledged as security for a given loan.

Every family may at some time have a sudden and immediate need for cash. This demand perhaps cannot be met either from savings or current earnings. In the case of money needed to pay for the emergency of sickness or death, credit may need to be used. At times it might be wise to borrow money to take advantage of opportunities in education or business, or to buy equipment or tools essential for work, which in themselves can help to repay the loan. But before using credit, one should see from where the money is to come with which to repay the loan.

To have a high credit rating is most desirable. When families borrow money they use their credit and when it is used it creates a burden. Many kinds of credit are available today. The wise use of credit is a convenience, a privilege, and sometimes can be made an economy.

The charge account is one kind of credit which is a convenience. It saves time and energy, but there is a cost for this service. Retail concerns offer charge accounts as a means of getting business. The expense of this service is paid for by all who buy of that concern.

Installment buying is another form of credit. It is difficult to determine the charge paid for the service but it is often greater than the purchaser realizes. Before making an installment purchase, find the answer to these questions. Does the family need immediately the article offered? How much would it cost if purchased for cash? Could the money be borrowed, cash paid for the purchase, and a savings be made over the total amount of the installment payments? Does the installment contract give a title to the article or is it not owned until *all* payments have been made?

The family must always keep in mind the fact that using credit to secure goods is not paying for the goods. "Today's credit purchases are tomorrow's bills." However great the need today may be, tomorrow will bring its own needs. Before tomorrow's pleasures are enjoyed, payment for today's credit purchases should be made.

MEASURING FINANCIAL PROGRESS

Financial gains made by the farm and home may be measured by using *net worth statements* made at different times. An increase in the bank account from one year to the next is not a measure of the financial gain. The bank account may be increased by selling off some of the working capital in the form of livestock or other property, or it may be lower at the end of the year than at the beginning even though substantial financial gains have been made. These gains may have been used to reduce indebtedness, to purchase more livestock, or to increase other working capital. In such instances the comparative size of the bank account will not indicate the change in financial status during the year. Any change, however, will be shown by a net-worth statement.

Such statements will show at a glance what the financial gain was during the period between the making of two statements. They will show what *assets* (property you own) have increased or decreased and also any changes made in *liabilities* (debts you owe).

FORM D—NET WORTH STATEMENT (FARM AND HOME)

ASSETS					Beginning of year	End of year
Land (include buildings)	-	-	-	-	\$.....	\$.....
Livestock	-	-	-	-
Machinery and equipment	-	-	-	-
Feed, grain, and supplies	-	-	-	-
Household inventories	-	-	-	-
Other property	-	-	-	-
Cash	-	-	-	-
Accounts receivable	-	-	-	-
Notes receivable	-	-	-	-
Mortgages receivable	-	-	-	-
Interest receivable (due and unpaid)	-	-	-	-
Stocks and bonds	-	-	-	-
Life insurance policies (cash value)	-	-	-	-
Total Assets	-	-	-	-	\$.....	\$.....
LIABILITIES					Beginning of year	End of year
Accounts payable	-	-	-	-	\$.....	\$.....
Notes payable	-	-	-	-
Mortgages payable	-	-	-	-
Taxes due and unpaid	-	-	-	-
Interest due and unpaid	-	-	-	-
Cash rent due and unpaid	-	-	-	-
Borrowed on life insurance policies	-	-	-	-
Unpaid installments	-	-	-	-
Total Liabilities	-	-	-	-	\$.....	\$.....
NET WORTH	-	-	-	-	\$.....	\$.....

A *net-worth statement* shows the condition of the business and provides information that may be of use in planning future operations. Such a statement will indicate the approximate amount of credit that may be extended. Financial institutions require a net-worth statement before loans are made.

Your *net worth* is obtained by subtracting *liabilities* from assets. Form D illustrates the essentials of such a statement.

The following suggestions on filling in the net-worth statement apply to **Assets**.

Land: Give value of land, including improvements.

Livestock: Include total value of horses and mules, cattle, hogs, sheep, and poultry.

Machinery and equipment: Include car, harness, small tools, movable hog and poultry houses, and light plant.

Feed, grain, and supplies: Include all grains, seed, hay, and other roughage, concentrates and growing wheat.

Household inventory: Include furniture, washing machines, refrigerators, clothing, decorations, musical instruments, jewelry, firearms, radios, food supplies and kitchen equipment.

Other property: Include property other than the farm you operate.

Cash: Include amounts in bank, cash on hand, and amounts in savings accounts.

Receivables: Include all notes, mortgages, and accounts that are *owed to you*.

Stocks and bonds: Include federal, municipal, public utility, and commercial.

Life insurance policies: Show the cash surrender value of the policy. When all assets are entered, total the column.

Liabilities, or obligations, include the following:

Payables: Include such items *owed by you* as store bills, doctor bills, mortgages on land or chattels, or personal notes given.

Taxes due and unpaid: Include taxes on both real estate and personal property that are unpaid and past due. If taxes are paid twice yearly, do not consider the second payment as past due until after the time that it should be paid.

Interest due and unpaid: Include interest on which you are in default.

Cash rent: Include only unpaid rent for past years.

Borrowed on life insurance: Include the amounts of loans on policies only.

Unpaid installments: Include amounts still due on automobiles, household equipment, or other items of purchase.

Add the column of liabilities to get the total. Then subtract *total liabilities* from *total assets* and the result is the *net worth*.

SAVE BY PLANNING

"Cut your garment according to your cloth."

Every family has difficulty in making the money it has stretch far enough to accomplish all the things its members would like to do and buy all the things they need or want. A spending plan is one method that helps with this problem. A spending plan is not a magic thing by which expenses are met and desires fulfilled, but it does help all members of the family to see in advance whether or not the income, regular or irregular, may cover the wants and desires. It shows that either the income must be increased or else the business and family wants reduced. It is much less painful to recognize and face in advance the fact that certain desires cannot be met than it is to spend and be frequently reminded of the obligation.

REASONS FOR HAVING A SPENDING PLAN

1. A plan may be a guide to financial safety.
2. A plan may show us where the dollar should go before it goes.
3. A plan may be a picture in figures of our own family spending.
4. A plan helps us to see what may reasonably be anticipated for a month or a year.
5. A plan may help to keep us from buying what we cannot afford.
6. A plan may organize our spending and decrease any careless and haphazard purchases.
7. When unexpected expenditures must be made, a plan may show where to cut down current expenses with the least sacrifice.
8. A plan may help us to acquire gradually; by systematic saving, the things we want.
9. A plan may help us to accumulate systematically a reserve fund from which to meet seasonal expenses as they come due.

The farm and home spending plan should be prepared to include the following: farm business expense, family living, interest on borrowed money, retirement of debt, savings for future needs, and new investments for farm or home.

If given the same amount of income, no two farm families would spend it for the same farm and home purposes. Each family alters the pattern to make it fit that family's needs. This is why planned spending can be an interesting challenge, not dreaded but enjoyed by the family members.

It is a good idea to stop, to take stock, to consider, to ask the questions: "What progress have we made in the last ten years?" "What will we have to show for the next ten years of earning?"

It is essential to plan *now*. Whatever the goals are, a college education for someone, a better home, more land, or financial security, the family will have a better chance of reaching the goals if they have a plan. It should be a workable plan. It should allow for unfavorable circumstances which might occur. It should cover a long time.

HOW TO MAKE A SPENDING PLAN

Each family (father, mother, and children who spend) must work together to build a plan to fit their circumstances and needs. Home and business records of spending, if available, are useful when planning. They give totals which are guides. If records are not available, the averages of records as shown in the Nebraska Summary of Home Account Books for last year and the Farm Business Reports prepared for your county or area may be helpful.

Success requires family cooperation, a willingness to give and take, and the determination of all members to make a workable spending plan. The following form is convenient for the preparation of a family's spending plan:

FORM A—OUR ANTICIPATED FARM AND HOME SPENDING PLAN

Money to be received				Money to be paid out			
Farm income	Cash earnings by members of family	Other sources	Total	Farm business expenses	Family living and life insurance	Interest and payment of debts	Total
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)

1. List the sources of income with estimated amounts. Farm income will include sale of all crops, livestock, dairy, and poultry products, along with other income of the farm business. Show the total in column 1, Form A.

2. The ability and age of family members will determine the cash earnings other than the business, if any are available. Show the total in column 2, Form A.

3. For each family "other sources" will vary, but may include income such as interest, dividends, or rent from other property. Show total in column 3, Form A.

4. Make a total in column 4 of all possible income.

5. The anticipated farm business expenses may be arrived at by using Form B, line 13, on which to estimate in detail the common farm expenditures. Show this total in column 5, Form A.

6. The family living may be arrived at by using Form C on which to estimate in detail the various phases of home living expenditures. Show this total in column 6, Form A.

7. Besides the fixed and needed expenditures, it may be necessary to pay out money during the year for interest or for payment on a debt. See Form B, line 16. Show in column 7, Form A.

8. The total of columns 5, 6, and 7 will give the anticipated money to be paid out for the year.

Compare the spending-plan totals. Revise the first estimates if necessary, so that money paid out does not exceed money received. If the family gives thought to each phase of money income and expenditure, it will

have a better understanding and a more generous attitude toward the problems of choice in money management. This spending plan should be flexible. During the year unforeseen circumstances will require alteration, but to have a plan, even if changed, is better than being without a plan.

FORM B—ESTIMATED FARM CASH EXPENDITURES FOR THE YEAR

1.	Repairs on improvements (include insurance)	-	-	-	-	-	-	-	-	\$.....
2.	Machinery, repairs, and new (include oil, fuel, and grease)	-	-	-	-	-	-	-	-	\$.....
3.	Automobile expense	-	-	-	-	-	-	-	-	\$.....
4.	Feeds	-	-	-	-	-	-	-	-	\$.....
5.	Livestock purchases	-	-	-	-	-	-	-	-	\$.....
6.	Livestock expense (veterinary, vaccinating, etc.)	-	-	-	-	-	-	-	-	\$.....
7.	Seed	-	-	-	-	-	-	-	-	\$.....
8.	Crop expense (twine, shelling, threshing, etc.)	-	-	-	-	-	-	-	-	\$.....
9.	Taxes (real and personal)	-	-	-	-	-	-	-	-	\$.....
10.	Cash rent	-	-	-	-	-	-	-	-	\$.....
11.	Hired labor	-	-	-	-	-	-	-	-	\$.....
12.	Miscellaneous (telephone, dues, poisons, etc.)	-	-	-	-	-	-	-	-	\$.....
<hr/>										
13.	Total operating expense	-	-	-	-	-	-	-	-	\$.....
14.	Interest payments	-	-	-	-	-	-	-	-	\$.....
15.	Debt reduction	-	-	-	-	-	-	-	-	\$.....
<hr/>										
16.	Total other	-	-	-	-	-	-	-	-	\$.....

Some items of expense can be estimated rather closely, such as seed costs, taxes, cash rent, automobile expense, and possibly others. Items such as labor hired, twine, threshing costs, feeds bought, debt reduction will vary with the season. The plan should probably be set up on the basis of normal production, realizing that adjustments, if necessary, will be made in accordance with changing conditions as the season advances.

The expenses as set forth above should be added to the family living expenses and this total then compared with the estimated income figures set up on the form provided for that purpose, to see if probable income is sufficiently large to meet probable outgo. An inspection of the estimates may suggest some changes either to increase the income or to reduce expenditures.

Possibly a change in the farm organization is needed to provide more income such as a change in the acreage of different crops or possibly more livestock may seem advisable. Or it may be special-quality crops can be grown, requiring a select market that may possibly be developed.

The plan should not be accepted as final until, at conservative estimates, it will provide for the expenses listed.

FORM C—ESTIMATED HOME CASH EXPENDITURES FOR THE YEAR

Savings									
Life insurance (all members)	-	-	-	-	-	-	-	-	\$.....
Other savings	-	-	-	-	-	-	-	-	.....
Food (groceries and meals purchased)	-	-	-	-	-	-	-	-	.....
Clothing									
Father	-	-	-	-	-	-	-	-	.....
Mother	-	-	-	-	-	-	-	-	.....
Others	-	-	-	-	-	-	-	-	.....
Personal care (for all)	-	-	-	-	-	-	-	-	.....
Cleaning (for all)	-	-	-	-	-	-	-	-	.....
Shelter									
Rent, or taxes and insurance on house	-	-	-	-	-	-	-	-	.....
Repairs or improvement	-	-	-	-	-	-	-	-	.....
Operating									
Fuel	-	-	-	-	-	-	-	-	.....
Light	-	-	-	-	-	-	-	-	.....
Water	-	-	-	-	-	-	-	-	.....
Phone	-	-	-	-	-	-	-	-	.....
Supplies	-	-	-	-	-	-	-	-	.....
Equipment	-	-	-	-	-	-	-	-	.....
Furnishings	-	-	-	-	-	-	-	-	.....
Services and wages	-	-	-	-	-	-	-	-	.....
Auto									
Purchase payments	-	-	-	-	-	-	-	-	.....
Operating costs including repairs	-	-	-	-	-	-	-	-	.....
Licenses, taxes, insurance	-	-	-	-	-	-	-	-	.....
Development									
Education	-	-	-	-	-	-	-	-	.....
Church and charity	-	-	-	-	-	-	-	-	.....
Recreation	-	-	-	-	-	-	-	-	.....
Health	-	-	-	-	-	-	-	-	.....
Gifts	-	-	-	-	-	-	-	-	.....
Total family living	-	-	-	-	-	-	-	-	\$.....

Savings for most families have been limited in recent years quite largely to life insurance premiums. These premiums are known and can be entered accurately.

Food is best estimated by multiplying by 12 the average per month.

Clothing is the amount planned for or needed for clothing this year.

Shelter is the total of rent, or taxes and insurance with planned improvements or necessary repairs.

Operating items may be partly known and partly estimated.

If automobile records have been kept or average yearly mileage is known, the total can be closely estimated.

Items listed under development will be influenced by the conditions during the year but desires and expectations can be estimated.

Secure a total and make alterations if as a whole it seems too high or too low.

Enter your figures on Form C.

HOW TO FOLLOW THE PLAN

"A man's judgment is no better than his information." Records have the purpose of providing information which may be used as the basis for decisions. No plan for the farm and home should be carried through without change. The plan is a guide which can be followed in the main but deviations can probably be made with profit from time to time as the season advances. These changes may be made advisable because of adverse weather conditions, because of changes in prices of commodities, or because of a variety of other conditions that may arise as the season advances. To illustrate, the plan might call for six or eight litters of spring pigs. Crop conditions early in the summer might indicate a plentiful supply of feed that could be fed to hogs at a profit. This condition might make it wise to raise one or possibly two fall litters of pigs. Such a change would be in harmony with the plan as it is contemplated so that it would be flexible enough to meet changing conditions. A better plan can be made the second year if records have been kept, studied, and the lessons shown applied to the later plans made. Not only should records be used as a basis for making farm and home plans, but agricultural outlook information can also be studied and often used to advantage.

Most people can look back and see mistakes they have made in spending. Families that have tried making a *spending plan* say that they find "foresight" in using money is better than "hindsight." There is no universal spending plan any more than there is a meal that will suit everybody. The family that has kept records is fortunate. With information, with family cooperation, and with a long-time view, which is a plan, good farm and home money management practices can secure more of the satisfactions of life.

"Successful is he who knows what things cost,
Who knows where he profits, and where he has lost,
Who knows what might pay, and what never can,
For he plans his work, then works his plan."

REFERENCES

- Suggestions in the preparation of this circular have been obtained from the following publications:
- Family Finance*, by Howard F. Bigelow (519 pages). J. B. Lippincott Co., Chicago, 1936.
- What About Dollars?* Distributed by Education Research Association, 387 Plumosa Drive, Pasadena, California. McClure Publishing Co., New York.
- Economics of the Household*, by Benjamin R. Andrews (626 pages). The MacMillan Co., 1935.
- Summary of Nebraska Home Account Records*, Nebraska Extension Circular 11-116, College of Agriculture, Lincoln, Nebraska.