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Information systems aid better management decisions

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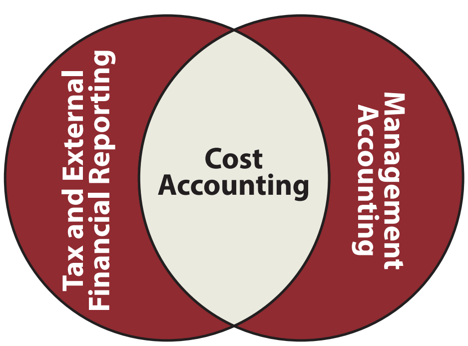
It's often said that you can't manage what you don't measure. With many agricultural operations, decisions are made on a daily basis without adequate supporting information. Every enterprise should have some type of information management system for the records it generates. The type of information generated and how well it is used will help determine success. However, the quality and quantity of the information gathered only has value if it is used to make wise management decisions.

The basic areas of any information management system should include a cash accounting system with a depreciation schedule, financial statements, inventories (cattle, equipment, feed, etc.) and production records to measure performance. These types of records should be kept to answer questions about different areas within the operation.

Figure 1



In most cases, a cash accounting system can be handled adequately by computer programs such as Quicken. QuickBooks may be useful for more complicated operations. These and similar programs can provide the information to meet tax obligations and to provide basic data for financial statements.

However, information prepared for tax purposes does not measure the profitability of a business or its financial position. The Farm Financial Standards Guidelines identifies the following statements as the minimum needed to document financial position and performance:

1) Balance sheet with both cost and market valuation.
2) Accrual adjusted income statement.
3) Statement of cash flow.
4) Statements of owner equity.

Another part of an information management system should track inventories. Equipment inventories are necessary for completing depreciation schedules and can aid in planning for future capital expenditures. An accurate cattle and feed inventory is essential for measuring production performance and completing financial statements. A complete inventory by category of cattle (cows, bulls, heifers, stockers, etc.) should be done at least twice a year. If only done twice, the inventory should be taken at the beginning of the fiscal year and at the beginning of the breeding season. This inventory should include a record of all deaths, purchases and sales.

After completing data collection, it is important to analyze the information. Financial accounting deals with historical records of financial activities, position and performance, particularly as it relates to tax and external financial reports. Management accounting focuses on providing data and reports with information useful for making decisions. Management accounting reports for different segments of an operation provide an understanding of each of the business components so that desired changes can be made with better understanding and less risk. A management accounting system should be designed, operated and staffed to provide management information to support the following internal business management functions such as:

- Planning activities.
- Decision making (marketing, investment and resource use).

- Measuring commodity cost and production performance.
- Controlling and monitoring the business.

All of these areas of information management should be addressed in each operation. Too many producers have only had tax-based information from which to make decisions. Management strategies should not be made on tax information because it only tells part of the story. It is critical that financial and management information be collected and analyzed to make good decisions. ■