

Bookkeeping 101

Six tips for better horse keeping accounting practices.

by Lisa Munnikma

When given the choice between spending time with the horses or spending time with office work, it's pretty safe to say any cutter is going to choose the horses. Still, producing accurate records and having well-kept books are vital to any equine business venture.

If you rushed around in search of tax records again this spring, now is when you should rethink your business bookkeeping practices and put in place a system you can stick with.

"You don't make any money shuffling papers. You make money riding horses, training horses, and selling horses," says equine business consultant and Profitable Horseman owner Doug Emerson.

Still, it's hard to make money riding, training, and selling—or through any other activity—without having an accurate picture of how your business is doing.

Cutting Horse Chatter asked two business professionals for their advice on developing a better accounting method for cutting horse businesses. There are six tips for you to consider:

1. Find a place for everything

Too many equine business owners use the paper-bag accounting method: Every receipt and scrap of paper goes into the paper bag, and you hope no one throws away the paper bag before April 13. On April 14, you sort through the paper bag and try to make sense of last year's income and expenses. For so many reasons, this is not the best approach to keeping business records.

It will take more time up front, but having a regular filing system will save you hours in the long run. Emerson is a fan of manila file folders, the least expensive organizational tool you can buy. A stack of file folders and a plastic filing box can provide all the organization you need to stay on top of your bookkeeping throughout the year. Likewise, accounting manager Lance Jacob recommends accordion files for your paperwork.

"Keep up with filing as you go so it doesn't get overwhelming," says Emerson, of Lockport, New York.

When you stopped at that little diner on the way home from the cutting with your best client last weekend, the receipt you got was hand-written, right? Will you remember what that receipt was for in six months? Probably not, but you know what it's for today, so go ahead and file it

today in the folder marked "meals and entertainment."

Likewise, the stallion syndicates and futurity horse partnerships that you're a part of should be kept separate, so be sure your filing system can accommodate sections for those.

One key to efficient bookkeeping is knowing what to keep and what to throw away. Emerson recommends keeping both personal and business records for seven years.

Sometimes it's easier to keep things rather than purge them, because you don't know if you're really going to need them again. For tax and business planning purposes, you want to keep any receipt or record of income that relates to any aspect of your business. Marketing, mileage traveled in the course of doing business, supplies, horses bought and sold, veterinary and farriery costs for horses that are a part of your business—which is not necessarily every horse on your property, and machinery repairs and purchases are just a few of the areas you need to keep track of.

You can spend some time every day dealing with your bookkeeping, but you'll waste a lot of time that way. Set up a time every week or, at minimum, every month to sort through your receipts and payments and enter them into your bookkeeping system. Reviewing your financial standing this often will help you to make decisions moving forward.

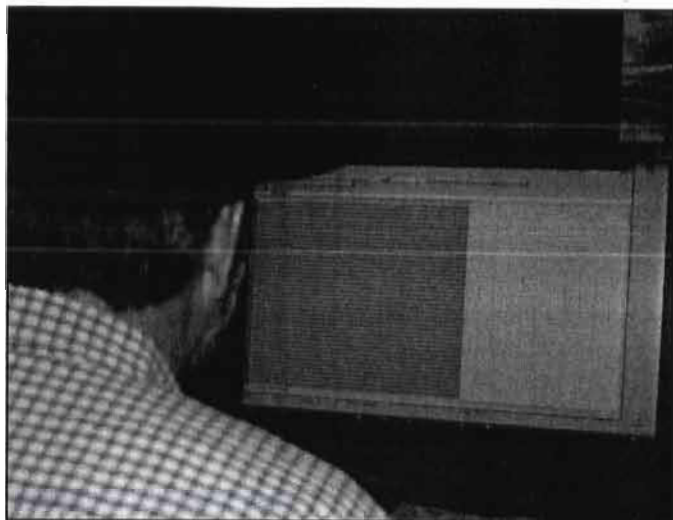
"I think most small business owners know where they are to some degree in their head, just watching the cash in and watching the cash out," Emerson says. "But it's not perfect. The process of doing it monthly gives you the discipline to keep up with the entire project. You're ahead of the game when it comes to filing your tax return and having to compile income and expenses."

4. Let the computer do the work

There are a myriad of general accounting software programs, equine-specific programs, and design-it-yourself programs that lift some of the mathematical burden of bookkeeping.

The general bookkeeping software programs like Quick Books or Quicken are designed to meet basic needs. Some are easier to use than others. Emerson likes Quick Books for equine businesses, while Jacob recommends starting with Quicken if you have little accounting knowledge.

Equine-specific programs, including Equinomics 101, Hi Marks, and Horsetrack, may provide more detailed record-keeping abilities. For breeders and competitors, there are options in these programs to keep records on



Stacy Pigott

Computers can help by performing mathematical calculations so you don't have to.

individual horses, transactions, and competitions.

For computer-savvy people—or those with computer-savvy employees—a system like Excel that you can design yourself to meet all of your needs can make the most sense.

With any of these, as you input your cash income and outflow, you can regularly check in to see where your business stands for net worth, cash-flow predictions, irregular spending, and other items vital to healthy business planning.

"You can read through them and see this person's in this to make a profit. It's clean. You can follow the records," says Jacob, of Naden/Lean, an accounting and business consulting firm in Timonium, Maryland.

5. Enlist help

"I always tell clients that one of the best things a small business owner can do is pay to have the bookkeeping done. Small business owners tend to kid themselves that they're going to do it in their spare time, which they have none, or they're going to do it at 10 at night when their eyelids are drooping down," Emerson says.

Of course it'll cost you more to pay someone than to do it yourself. Determine how much three extra hours each week of sleeping, riding, or family time is worth to you; then find a qualified accountant who can take over your bookwork for that amount.

The more efficient your organizational skills are upfront, the less time and money you'll have to spend on an accountant. Jacob points out that many accounting firms charge their clients by the hour, so if you were to deliver a paper bag full of unorganized business and personal receipts, you'll be unhappy when you receive their bill. If you bring them somewhat-organized file folders or an accordion folder once a month, their fees will be more reasonable.

"It's really important that you keep good records for, number one, your accountant, and, number two, if it was ever questioned by the IRS," Jacob says.

Good records, too, will give you a plus when it's time to talk with a financial institution about lending for a major purchase. And if your records are in order before you bring them to your bookkeeper, you won't have to spend time explaining all of them to him.

At the very least, professional horseman should enlist a professional tax accountant.

"There are too many tax rules to keep up with every year," Emerson says.

You don't want to be missing out on legitimate deductions that could save your taxes, not do you want to be using deductions that no longer apply.

This may be the hardest rule of all for small businesses to follow. Setting up a separate business identification with your state government and then keeping track of your business income and expenses on their own are vital to accurate bookkeeping.

Your personal bills such as mortgage, groceries, and personal entertainment should come out of your own checking account. Your business debts, like a horse trailer payment, new arena footing, and breeding fees, should be written from your business account.

"If the IRS were to question your tax return, you want to be able to show them you can document this," Jacob says.

Every dollar of income needs to be accounted for in your business accounts.

When bookkeeping isn't enough

In the event of an IRS audit, if you show losses in your business for several years, the government can declare your business a hobby, which will result in big penalties.

"Have a business plan. If you're in it to make money, you need to show you have a profit motive through good documentation," says Lance Jacob, accounting manager at Naden/Lean.

The better your record keeping and business planning, the more likely your equine business is to be viewed as legitimate. Any business attorney or consultant should be able to assist you in developing what you need.

"If you're sloppy and that money ends up going into a personal checking account, the IRS can look at that as fraud. That gets really messy," Jacob says.

Whether doing your own bookkeeping with a computer system at home or using an outside accountant to help you, keeping your records accurate and separate from the beginning will ease a lot of the hassle of bookkeeping. Setting up clear categories with detailed descriptions is important.

"Especially if you're loaning personal funds to your business, you want to keep track of that," Jacob says.

If you're already dreading April 2009, go tie up your horse, sit down with your business records, and make a plan going forward to turn this year into the year you get organized. ★



A simple accordion file can help you keep track of receipts and avoid the "brown paper bag" style of accounting.

NCHA photo by Dave Atterberry