THE ROLE OF ACCOUNTING INFORMATION IN OPTIMIZING FARM PRODUCTION COSTS

Andreas TIMIȘAN, Oana SICOE-MURG, Camelia MĂNESCU, Iuliana MERCE, Elena TONEA[1#],

[1] University of Life Sciences "King Mihai I" from Timișoara, Faculty of Management and Rural Tourism, Romania
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RESEARCH ARTICLE

Abstract

Accounting information is the backbone of disciplined farming - providing the data needed to plan, control, and improve how farms convert inputs into outputs. In agriculture, where prices, weather, and yields can swing from season to season, timely, accurate accounting information helps managers make smarter decisions that reduce waste, improve profitability, and sustain farming operations over time.

Keywords: accounting information, profitability, fixed and variable costs, smart decision
#Corresponding author: elenatonea@usvt.ro

INTRODUCTION

Farming sits at the intersection of biological processes and financial management. Across dairy, grains, and horticulture, production decisions must respond to weather, pests, disease pressure, and volatile prices, all while costs exhibit different behaviors (fixed versus variable) over time. (Davis & Johnson, 2019) -5,20

High-quality accounting information - encompassing input costs, labor, machinery, maintenance, yields, and revenue timing - provides the data backbone for planning, control, and optimization.

However, many farms operate with fragmented data systems: manual records, inconsistent units, and limited integration between field activities and financial statements. This fragmentation erodes visibility into cost per unit, activity profitability, and the drivers of waste, making it harder to forecast cash flows, allocate capital, and respond swiftly to shocks in price or yield. As a result, opportunities to reduce waste, improve margins, and strengthen resilience can remain unrealized. (Harris & Turner, 2021)

To address this gap, this essay develops a structured, practical framework that links costing methods - such as standard costing, Activity-Based Costing (ABC), and life-cycle costing - with budgeting, scenario planning, variance analysis, and Farm Management Information Systems (FMIS). (Khan & Lee, 2021; Robinson & Green, 2020).

The approach is designed to be scalable and adaptable across farm types and scales, from smallholder operations to mid-size commercial farms. The goal is to translate everyday transactions into actionable cost insights that inform what to plant or produce, how to farm it, and when to invest. (Parker, 2022).

Farming operates with a mix of fixed and variable costs amid seasonal cycles, weather risk, and volatile prices. (Carter & Milne, 2019)

High-quality accounting information translates day-to-day transactions into actionable insights - cost per unit, activity profitability, and efficiency drivers.

A robust framework helps farmers plan, control, and adjust production, enabling smarter choices about inputs, scale, and timing.

The objective of this study is to present a structured approach to using accounting data to reduce costs, improve margins, and build resilience across farm types (e.g., dairy, grains, horticulture). (Anderson & Williams, 2020).

In the modern agricultural landscape, where competition is fierce and margins are often thin, the effective management of production costs is paramount for the success and sustainability of farming operations.

Accounting information plays a pivotal role in this optimization process, serving as a foundational tool that informs decision-making and enhances operational efficiency.

This paperwork explores the multifaceted role of accounting information in optimizing farm production costs, emphasizing its significance in cost tracking, budgeting, decision-making, resource allocation, and overall financial health management. (Thompson & Adams, 2018).

MATERIALS AND METHODS

In conducting a study on the role of accounting information in optimizing farm production costs, it is essential to employ a systematic approach.

By employing a combination of quantitative and qualitative data collection, rigorous analysis, and case study evaluations, researchers can gain valuable insights that can inform best practices in agricultural accounting and cost management.

This comprehensive approach will not only contribute to the academic understanding of the topic but also provide practical recommendations for farmers seeking to enhance their operational efficiency and profitability.

To assess the role of accounting information in optimizing farm production costs, the following methods were employed:

- Analysis of existing research on agricultural accounting practices.
- Examination of case studies where accounting information significantly impacted farm profitability.
- Conducted surveys with farmers to gather data on their accounting practices.
- Interviews with agricultural economists to understand the importance of accounting information in decision-making.
- Collected financial data from farms that utilize accounting systems versus those that do not.
- Compared the financial performance of farms using advanced accounting techniques with those relying on traditional methods.

We will summarize the collected financial data and will evaluate the costs associated with implementing accounting practices against the benefits derived (e.g., increased profitability, reduced waste).

RESULTS AND DISCUSSIONS

Cost Tracking and Analysis

One of the primary functions of accounting information in agriculture is its ability to facilitate detailed cost tracking. Farmers are required to maintain comprehensive records of all expenses related to their operations, including costs associated with seeds, fertilizers, labor, equipment, and maintenance. (Davis & Johnson, 2019)

By systematically categorizing these expenses, farmers can conduct thorough cost analyses, distinguishing between fixed and variable costs. This analysis is critical as it enables farmers to identify areas where savings can be realized, thereby enhancing overall profitability. For instance, if a farmer discovers that certain fertilizers yield diminishing returns, they may choose to reduce their usage or explore alternative options. (Bennett & Ison 2021; Jenkins, 2018).)

Budgeting and Forecasting

Budgeting is another essential aspect of farm management that relies heavily on accounting information. By utilizing historical financial data, farmers can develop realistic budgets that project future costs and revenues. This process includes forecasting potential changes in market conditions, weather patterns, and input prices, which are all critical factors in agriculture.

A well-prepared budget not only helps farmers plan for expected expenditures but also provides a framework for evaluating performance against actual results. By regularly comparing budgeted figures with actual outcomes, farmers can adjust their strategies as necessary, ensuring that they remain on track to meet their financial goals. (Kelley & Smith, 2020).

Informed Decision-Making

The availability of accurate accounting information empowers farmers to make informed decisions regarding their operations. For example, by conducting a break-even analysis, farmers can determine the minimum output required to cover their costs, allowing them to set appropriate pricing strategies and production levels. Additionally, accounting information aids in evaluating the cost-effectiveness of various inputs and technologies.

When considering investments in new equipment or farming practices, farmers can analyze potential returns based on accounting data, leading to more strategic and beneficial decisions. (Miller & Roberts, 2023).

Resource Allocation

Effective resource allocation is crucial in optimizing production costs. Accounting information provides insights into the costs associated with different resources, enabling farmers to allocate labor, land, and capital more efficiently.

By understanding the profitability of various crops or livestock, farmers can make informed decisions about which products to prioritize. This optimization not only maximizes output but also minimizes waste, contributing to a more sustainable farming operation.

For instance, if accounting data indicates that a particular crop is consistently yielding higher profits, farmers may allocate more land and resources to that crop, thereby enhancing overall productivity. (Stevens, 2021).

Financial Health Monitoring

Monitoring financial health is vital for any business, and farming is no exception. Accounting information allows farmers to manage cash flow effectively, ensuring that they can meet their obligations and invest in growth opportunities. By keeping track of income and expenses, farmers can avoid cash shortages and make informed decisions about when to purchase inputs or sell outputs.

Furthermore, accounting information aids in debt management by providing a clear picture of liabilities and equity. This understanding is essential for maintaining a healthy balance between equity and debt financing, which is particularly important in an industry characterized by fluctuating prices and unpredictable weather conditions. (Nelson, 2019).

Compliance and Reporting

Lastly, accounting information is crucial for regulatory compliance and tax planning in the agricultural sector. Farmers must adhere to various regulations regarding financial reporting and agricultural practices. (O'Reilly, 2021

Accurate accounting helps ensure compliance, reducing the risk of penalties and fines. Additionally, farmers can leverage their accounting data to optimize tax liabilities, taking advantage of available deductions and credits that can further enhance profitability. (Wilson, 2018).

Next, we will present the results obtained by applying the questionnaire. A number of 28 agricultural companies were surveyed.

10 questions were asked:

1. What is the total area cultivated last year (in hectares)?
2. How many main crops do you currently keep in production?
3. On a scale of 1 to 5, how advanced is the mechanization of your farm?
4. How clearly are indirect costs allocated between crops?
5. Does the accounting system influence input decisions in a noticeable way?
6. Do you monitor water/energy consumption in real time through sensors?
7. How accurate are the accounting records of production?
8. Is the decision to change crops (for cost reasons) correlated with accounting analyses?
9. How difficult is it to implement a modern management accounting system on the farm?
10. How useful was the management accounting training for your team?

The answers were:
1. What is the total area cultivated last year (in hectares)?

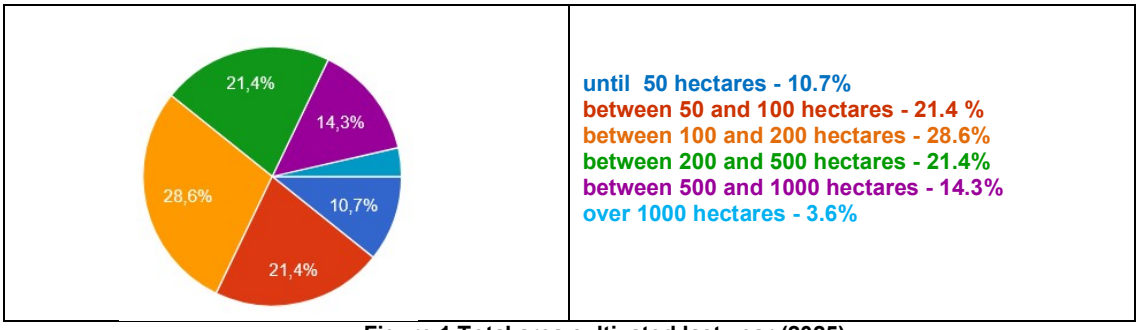

Figure 1 Total area cultivated last year (2025)

2. How many main crops do you currently keep in production?

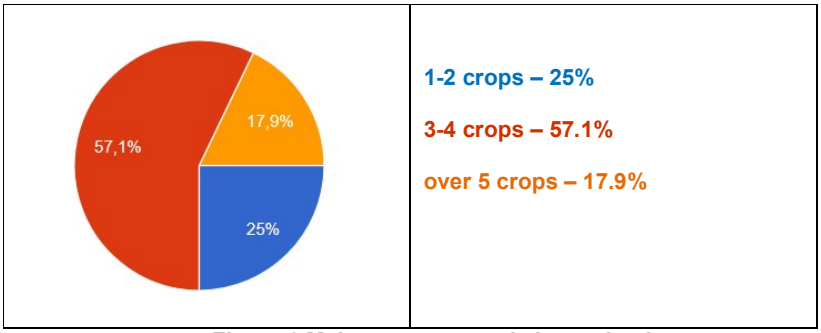

Figure 2 Main crops currently in production

3. On a scale of 1 to 5, how advanced is the mechanization of your farm?
(On a scale of 1-5, where 5 is the strongest value)

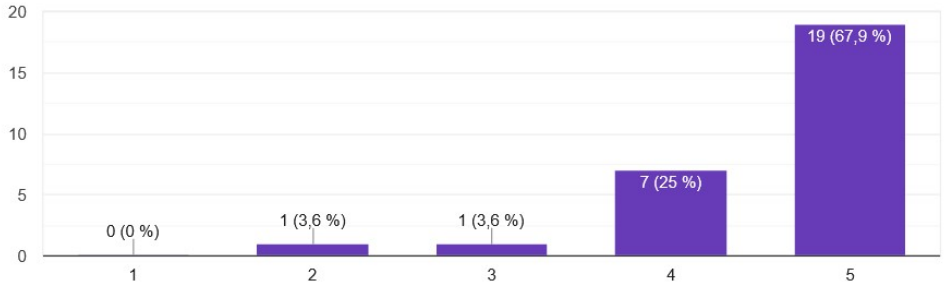

Figure 3 Farm mechanization situation

4. How clearly are indirect costs allocated between crops?
(On a scale of 1-5, where 5 is the strongest value)

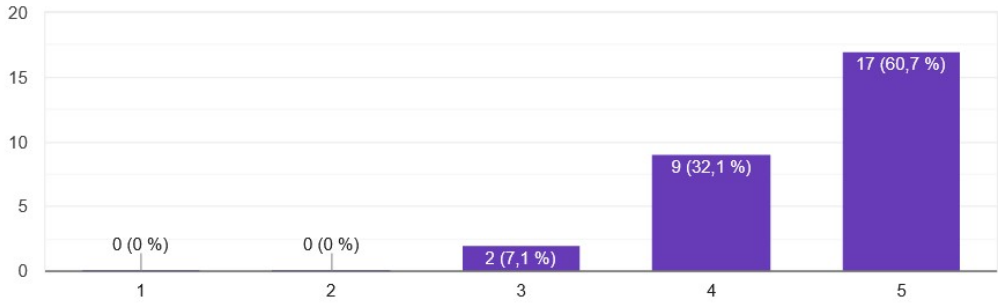

Figure 4 Indirect costs allocated between crops

5. Does the accounting system influence input decisions in a noticeable way?

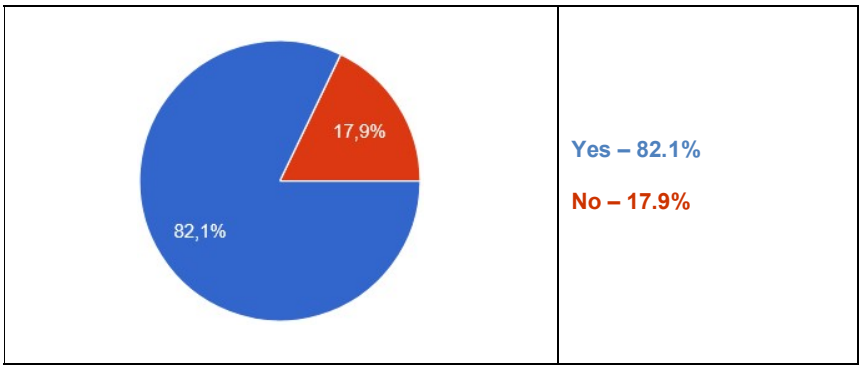

Figure 5 Decisions influenced by accounting system

6. Do you monitor water/energy consumption in real time through sensors?
(On a scale of 1-5, where 5 is the strongest value)

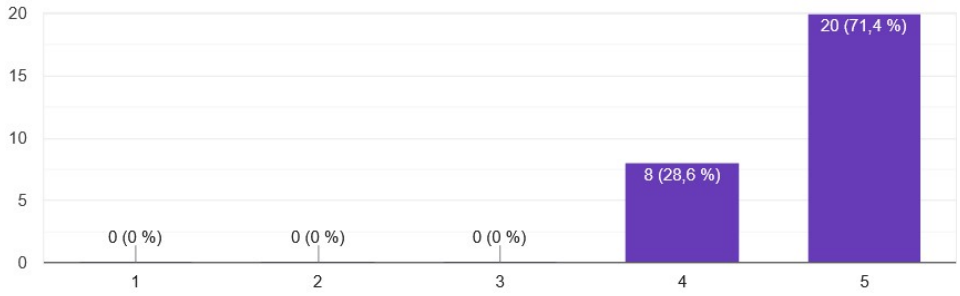

Figure 6 Monitoring the water/energy consumption

7. How accurate are the accounting records of production?

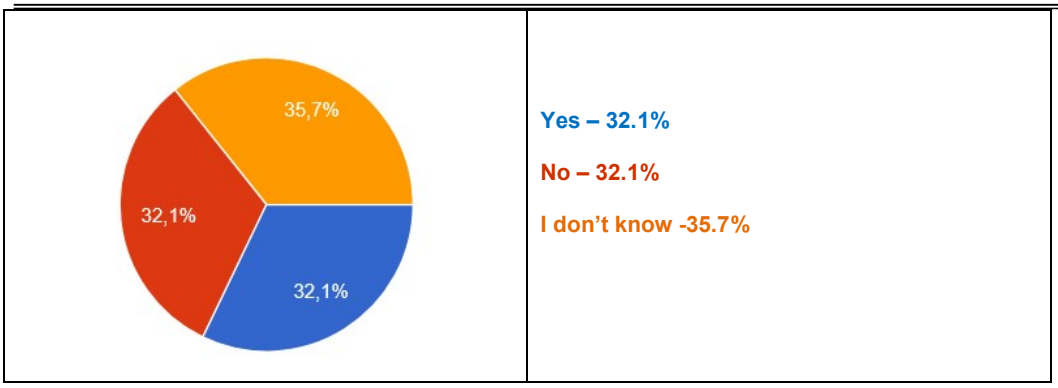

Figure 7 Correctness of the accounting records of production

8. Is the decision to change crops (for cost reasons) correlated with accounting analyses?

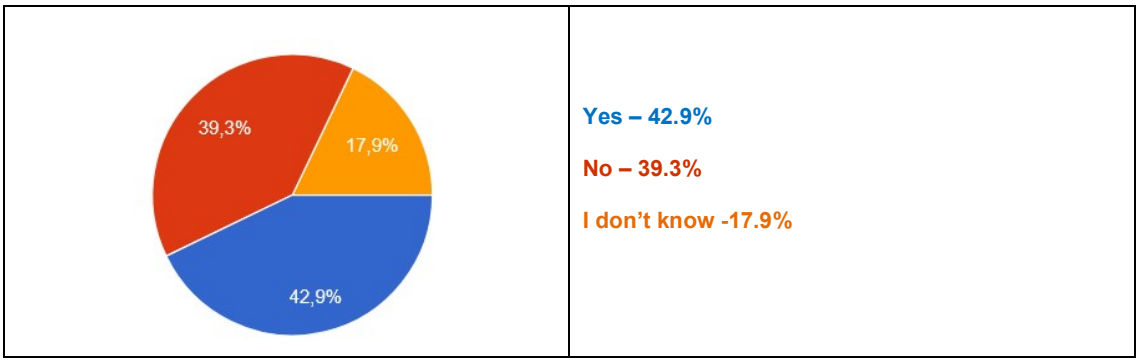

Figure 8 Crops correlated with accounting analyses

9. How difficult is it to implement a modern management accounting system on the farm?

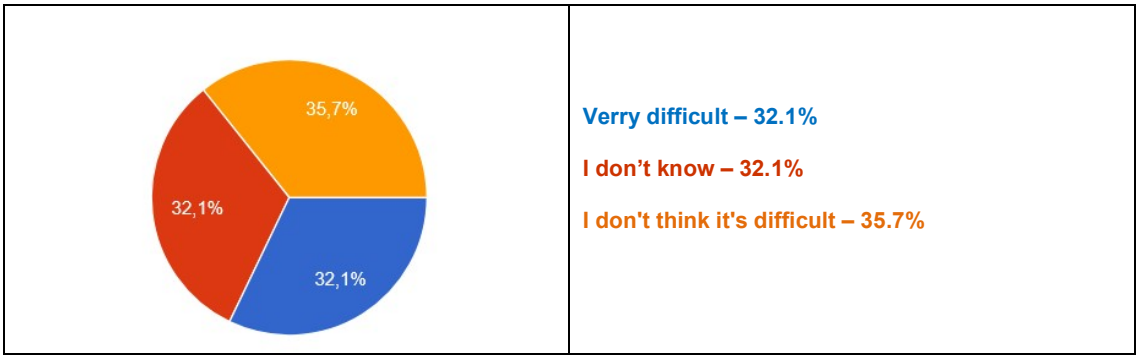

Figure 9 Implementation of a modern management accounting system on the farm

10. How useful was the management accounting training for your team?
(On a scale of 1-5, where 5 is the strongest value)

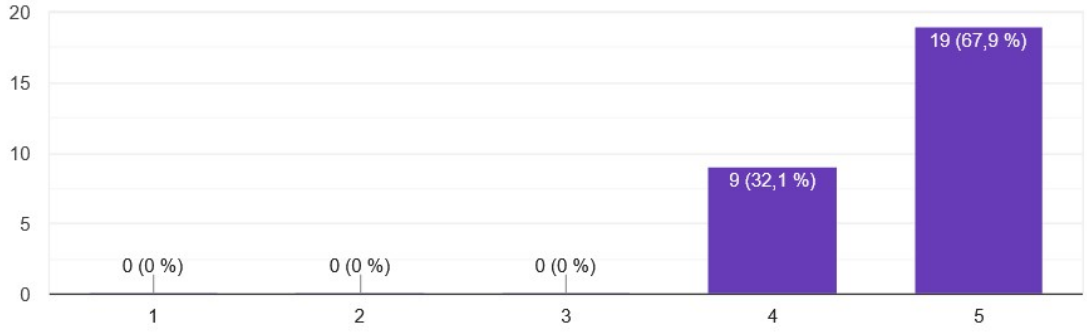

Figure 10 The importance of the management accounting training

After applying the questionnaire, we were able to formulate some observations:

- Accounting information strongly influences input decisions - a large majority of respondents indicated that the accounting system informs input choices (Yes: 82.1%; No: 17.9%). This suggests that cost data is actively used when selecting seeds, fertilizers, and other inputs.
- Cropping decisions linked to cost analyses, but not universally - 42.9% agreed that decisions to change crops are correlated with accounting analyses, 39.3% disagreed, and 17.9% were unsure. This points to a meaningful, but not universal, link between cost data and strategic crop choices.
- Data quality and confidence in accounting records are mixed - perceived accuracy of accounting records shows a divided view: 32.1% as accurate, 32.1% as not accurate, and 35.7% unsure. A substantial portion of respondents lack confidence in the data, underscoring the need for improved data collection, standardization, and training.
- Farm size and cropping patterns suggest a dominant small-to-mid scale, with moderate diversification - farm size distribution highlights a concentration in the 100–200 ha range (28.6%) and 50–100 ha range (21.4%), indicating a prevalent small-to-mid sized farm segment.
- Most farms grow 3–4 main crops (57.1%), followed by 1–2 crops (25%) and over 5 crops (17.9%), suggesting a moderate level of diversification that affects cost tracking and profitability analyses.
- Perceptions about implementing a modern management accounting system are mixed - opinions are divided: 32.1% view implementation as very difficult, 32.1% are unsure, and 35.7% do not think it is difficult. This reflects real perceived barriers (cost, complexity, change management) alongside optimism about feasibility and benefits.

CONCLUSIONS

In conclusion, accounting information serves as an indispensable tool for optimizing farm production costs. By facilitating cost tracking, budgeting, informed decision-making, resource allocation, and financial health monitoring, it empowers farmers to enhance their operational efficiency and profitability.

As the agricultural industry continues to evolve, the importance of sound accounting practices will only grow, underscoring the need for farmers to embrace accounting information as a vital component of their strategic management efforts. Ultimately, effective use of accounting information not only contributes to individual farm success but also supports the broader goal of sustainable

agricultural practices in a competitive global market.

The role of accounting information in optimizing farm production costs is undeniable. By providing critical insights into financial performance, accounting practices enable farmers to manage costs effectively, make informed decisions, and enhance profitability.

The study has demonstrated that farms that embrace accounting information, not only achieve better financial outcomes, but also contribute to sustainable agricultural practices. Moving forward, it is essential to promote the adoption of accounting tools and training programs to support farmers in harnessing the full potential of accounting information.

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