Grassfed Beef Ranch QuickBooks™ Setup Accounts

The business accounting system first must provide the data for compliance reporting following the expense accounts in the Internal Revenue (IRS) "Tax Profit or Loss from Farming", Schedule F when reporting on a cash basis. With subaccounts and addition of a few expense and income accounts the data generated can be used for beef cattle cost accounting and generation of managerial oriented financial statements to measure financial performance. The expense accounts provide detailed data for budgeting, and total unit cost (TUC) calculation by production activities. This guideline focus on a grassfed beef ranch. This could include grassfed finished cattle sold as live cattle, as carcass beef or grassfed meat sales.

The purpose of this guideline is to facilitate working with the business CPA to set up QuickBooks™ accounting software to accomplish the goal of meeting IRS and cost monitoring and management needs. Using the QuickBooks™ class P&L feature by production activity to facilitates cost accounting for reporting expense and revenue data by cow-calf versus grassfed retained ownership. The class P&L report can be exported to an Excel™ spreadsheet to facilitating analysis and making adjustments for budgeting, cost calculations and preparing business financial statements (See Appendix A).

It's critical for the business CPA to be involved in setting up QuickBooks™ expense and revenue accounts to insure IRS reporting needs are met. In addition to the detail recommended are made for measuring cost and financial performance and provide financial management data and reports.

The CPA will set up the balance sheet accounts (assets, liabilities and equity) and depreciation schedule.

Set up a separate "personal" company for QuickBooks™. Avoid mixing business and personal expenses.

Listed below are the IRS expense accounts and classes for a cattle grassfed ranch. Selected details or subaccounts are added under IRS cost items such as depreciation, repairs and hired labor and management to facilitate monitoring cost and reporting. The IRS Schedule F. does not require sales data by category cattle that are necessary for cost and management accounting. Suggested revenue accounts are added for carcass or beef meat sales. Expense accounts are added for costs associated with beef meat sales. The added details address management financial data needs for projections and closeouts.

The IRS Schedule F lumps sales by category of cattle sales together. Detailed revenue accounts are added to facilitate reporting revenues by categories of cattle.

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IRS Expenses Accounts – account numbers are from the IRS Schedule F*

10 Car and Truck Expense
11 Chemicals
12 Conservation Expense
13 Custom Hire (machine work)
14 Depreciation
15 Employee Benefits Programs
16 Feed Purchase
- Roughage
- Mineral & Salt
- Protein Supplement

17 Fertilizer & Lime
18 Freight & Trucking
19 Gasoline, Fuel, & Oil
20 Insurance
21 Interest Expense
- a. Mortgage - Real Estate Interest
- b. Other Interest - Non-Real Estate

22 Hired Labor & Management – sub accounts are added detail
- Salary
- Payroll Expenses
- Contract Labor

23 Pension & Profit-sharing Plans
24 Rents or Leases
- Vehicles, Machinery, & Equipment
- Land - (Cash Lease)

25 Repairs & Maintenance (subaccounts are added to give more detail on expenses)
- Vehicles
- Machinery & Equipment
- Buildings & Improvements

26 Seed & Plants
27 Storage and Warehousing
28 Supplies Purchased
29 Taxes (non-IRS)
30 Utilities
31 Veterinary & Medicine
- Breeding
- Breeding Herd Health and Vet
- Processing
- Treatment

*Second level is a sub-account to add detail useful for cost accounting.

32 Other Cash Expenses Specify see list below

- Professional Fees
- Office (user defined subcategory details)
  - Supplies
  - Utilities
  - Administrative Wages & Payroll
- Purchased cattle for Resale (use payweight cost and includes freight)
- Grassfed Meat Sales
  - Processing
  - Selling Expenses
- Owner Operator Compensation
  - (Withdrawals Personal and Owner Operator Management) - is not an IRS schedule F account as is not a tax-deductible expense. This data is needed for cost accounting.

Revenue Accounts:

For cost and profit by production activity revenue accounts must be added as illustrated below. Needs to define **purchased versus raised cattle****

- Cull Cows
- Cull Bulls
- Breeding Heifers or Cows
- Breeding Bulls
- Cull Repl. Heifers
- Weaned Steers
- Weaned Heifers
- Grassfed Steers
- Grassfed Heifers
- Grassfed Carcass beef or meat sales
- Crops and raised feed sales (add detail as needed)

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****Always use net payweight sales value out after marketing cost.**

When using QB avoid using **cost of sales accounts** as cost information is lost in the P&L report expense list.

Can set up for grassfed cattle by year started and then make inactive when cattle are sold. A nice feature of QuickBooks™ is you can run a P&L by class for the relevant months.

Suggested Grassfed Ranch Classes in QuickBooks™ - Must fit the Individual Ranch.

- Cow-calf
- Replacement Heifers - if marketed otherwise just keep with cow-calf
- Grassfed Cattle*
- Grassfed Carcass or Meat Sales*
- Raised Feed – define by crop
- Grazing – use separate classes when annual forages are produced
- Hay production
- Crops – define by crop name

* Can set up for cattle by year started or lot and then make the class inactive when cattle are sold.

Indirect Expenses or overhead (will be allocated to production activities to get total unit cost TUC) One of the best alternatives is to allocate indirect cost by head day. Much like feed lots allocate these cost as yardage cost per day. This is important for grassfed cattle that have long production cycles.

Suggested accounts to record in the Indirect Expenses Class (see IRS list above)
Car and Truck Expense
Gasoline, Fuel, & Oil
Employee Benefits Programs
Hired Labor & Management
  Salary
  Payroll Expenses
  Contract Labor (if can't be allocated directly to production activity)
 Pension & Profit-sharing Plans
Rents or Leases
  Vehicles, Machinery, & Equipment
  Land - (Cash Lease)
Repairs & Maintenance (subcategory added)
    Vehicles
    Machinery & Equipment
    Buildings & Improvements
Taxes (Non-IRS)
Withdrawals – Owner Operator management and labor – not an IRS deductible cost.
Conservation Expense
Insurance
Utilities
Professional Fees
Office Supplies
Administrative Wages & Payroll

Any of these accounts can also be used to allocate as direct costs if appropriate. For example, repair and maintenance of haying machinery could be charged directly to the class for the hay production activity.

Measuring Ranch Profit – It's Beyond the IRS Schedule F Report

The IRS Schedule F "Profit or Loss from Farming" does not measure costs of production and ranch business profitability without **serious revenue and expense adjustment**. Just always keep in mind what the IRS labels as "Net farm profit or (loss) is **not a good measure of profitability** or change in business equity. It's necessary to make "accrual" adjustments to generate an accrual adjusted income statement. With a net income or profit measure. Engage the business CPA in this activity.

This is a list of data needed to measure of business profitability that are not included in the Schedule F Cash Schedule F.

1. Compensation for owner operators labor and management or family living withdrawals. Recall in a sole proprietorship this is not a tax-deductible expense. See definitions below.
2. **Accrual adjustments** or changes in cattle and feed inventories values, prepaid expenses, accounts payable and receivable and accrued taxes and interest and investment in unfinished crops and market cattle.

Necessary Ranch Data in Addition to QuickBooks™ to measure profitability*

1. Monthly Cattle Inventory and beginning and ending inventories.
2. Feed fed record by cattle category and end of year feed inventory.

Grassfed Beef Decision Aids*

1. Grassfed Beef Profit Projection Live Sales
2. Grassfed Beef Profit Projection Live, Carcass or Meat Sales
3. Grassfed Beef Live or Carcass Closeout Performance
4. Grassfed Beef Meat Sales Closeout Performance

*__See Beef Cattle Decision Aids__ **http://agecoext.tamu.edu/resources/decisionaids/beef** for spreadsheets to facilitate this record keeping and the profit projection.

To facilitate this record keeping keep a separate capital asset or depreciable asset list at replacement cost in addition to data to maintain the CPA depreciation schedule for IRS. Check the depreciation schedule annually and keep the CPA informed on capital asset purchases and sales.

Reward your bookkeepers as they help you avoid IRS auditors and keep a focus on the business. Monitor and use the revenue and cost information at least monthly. Meet with the business tax accountant no later than October in a calendar year fiscal year for tax planning.

In this volatile decision environment knowing cost and net income by activity have never been more important. Profitability is a challenge in ranching. Timely use of accounting data in decision making **is a cost-effective activity**. Informed decision makers make better decisions.

Your CPA can assist in defining the chart of accounts and preparation of financial statement. Once defined it's just and implementation job and use!

Use one credit card and one bank account for the ranch. Keep personal and non-deductible expenses in a separate bank account and use a different credit card.

Your monthly business review should always include the review of the Quick Books™ P&L year to date.

Appendix A: Source of other beef cattle Spreadsheet Decision Aids :
Texas A&M University - Department of Agricultural Economics – Agri-Life Extension
Beef Cattle Decision Aids
http://agecoext.tamu.edu/resources/decisionaids/beef/

Appendix B: Ranch Cost Definitions

- **Direct Costs** are directly related to production activity. These costs go away when the production activity stops. For cattle, direct cost examples are feed, veterinary medicine, or health, breeding and purchased cattle for resale. For crops examples are seed, fertilizer, chemicals, irrigation and crop insurance. Meat processing and selling costs are direct costs. Direct costs account for the majority of production costs in agriculture. Management can and must control these costs. If the activity stops direct cost stop.

- **Indirect Costs** are **fixed** costs that can't be assigned directly to a production activity. Indirect costs continue irrespective of the level of production activities. Depreciation, repair and maintenance of vehicles, machinery and equipment, labor and management, property tax are examples of indirect costs.

- **General and Administrative Cost (G&A) are indirect** costs that all businesses incur to cover bookkeeping, professional fees, insurance, office supplies, computer services, phone and utility costs and business travel. Administrative cost includes the salary and payroll for support personnel. Owner operator withdrawals are indirect costs. Often ignored is management time required for retained ownership activity. Retained ownership should pay part of business indirect costs.

- **Depreciation** is the accounting procedure used to allocate a capital investment to the annual use cost of capital asset like vehicles, cattle equipment and machinery. Capital assets are purchases that have a productive life of more than one year. The number of years the depreciation cost is allocated each year depends on the "productive or economic life" of the asset less the **salvage value** or what the asset is worth after the **economic life** is completed. Information on capital assets is maintained in asset accounts. The tax CPA updates the depreciation schedule annually.

- **Internal Revenue Service (IRS)** d**epreciation** is the calculation procedure that IRS requires a business to follow to calculate tax-deductible depreciation. It should be clear that the rules followed to calculate IRS depreciation **are not good estimates** of depreciation for production cost calculation. Using zero purchased breeding cattle salvage values distorts year to year actual costs for breeding stock replacement. Accelerated depreciation using Section 179 and zero salvage value for IRS depreciation distorts year to year depreciation cost when calculating total unit cost. Work with the business CPA on this issue.

- **Depreciation cost** is a top five cost in ranching and the IRS calculated depreciation is pretty worthless for calculating depreciation. A reasonable approach is to use current replacement cost minus salvage value divided by useful life or straight line depreciation or a capital recovery cost to replace IRS depreciation. Limiting investment in depreciable assets is important in controlling cost. If it rusts or rots you don't it is an appropriate saying.

- **Finance cost** is the cash interest cost paid. For economic analysis interest is calculated by taking total cost adjust for the time fed (days fed/365) times the opportunity cost annual interest rate. Cow-calf economic is calculated based on ½ of operating cost times opportunity cost interest rate.

- **Total Cost and Total Unit Cost (TUC) includes**: 1. Direct costs, 2. Indirect costs including general and administrative (G&A) and management costs including owner operating management compensation and 3. Finance cost. When costs are, complete TUC is consistent with the total business income statement or profit and loss (P&L) statement.

- **Total Unit Cost (TUC)** or breakeven cost is a total cost divided by the amount of saleable product. The **costs included** must be defined before a breakeven can provide useful information to a decision maker.

- **Breaking-even** cost calculation when it **does not cover full cost is misleading.** When planning project a profit and measure net income and ROI.

Breaking-even is financial failure as a business is not financially sustainable if net price merely covers direct or cash costs particularly incomplete costs often reported in the cattle sector.