

Increasing Ranchers' Financial Management Information

Provided is a brief description of an effort to increase the preparation of financial statements and use of performance measures to meet producers' financial management information needs. The efforts begin with the use of accounting data that meets the IRS compliance needs. The IRS Schedule F "Profit or Loss From Farming" is a standardized defined reporting necessity for at least 95% of farmers and ranchers. It serves as a starting point to use the Farm Financial Standards Council (FFSC) guidelines that meet producers' financial statements reporting needs.

Standardization facilitates all education and FFSC guidelines implementation efforts and facilitates benchmark comparison between ranches.

In additions to the Schedule F report for IRS data requirement is needed to provide financial statements and calculated FFSC measures include the following:

- a. **Accrual adjustments** for the fiscal year financial statements.
- b. An accrual adjusted **Income Statement** to report profitability.
- c. A market valued **Balance Sheet**.
- d. **Statement of Cash Flow**.

Accounting software and spreadsheets used can addressed the needs as described below.

1. Set up and use software like QuickBooks Pro™ (QB) to meet the IRS Schedule F reporting requirements. This means dealing with the complexity of the IRS tax code. This involves bookkeeper training and the business tax CPA participation.
2. There are changes from IRS cash tax reporting profit or loss to meet the requirement for accrual adjusted financial statements. This includes items like inventory changes, alternative depreciation calculation method, non-cash accrual adjustments. Generating a market valued balance sheet to include non-ranch expenses or withdrawals that influence repayment capacity. Subaccounts can be added to the Schedule F. accounts to provide needed detailed data by production activity.
3. Use Excel™ spreadsheets combine QB data with other data to generate the financial statements reports and FFSC performance measures by criteria (see list that follows).
4. QB accounts setup for ranch use needs to be commodity specific in addition to the financial reporting standards to include production performance bench marks. See the following for the cow-calf enterprise and retained ownership benchmark summary and FFSC recommended financial criteria and ratios.

Integrated Cattle Ranch Financial and Production and Reporting

Useful management reports are **beyond the annual IRS Schedule F** tax cash returns. **Accrual adjusted financial statements provide** data that report financial measures criteria including liquidity, solvency profitability, repayment capacity and financial and efficiency. The cow-calf production performance provides cow-calf productivity and combines with the financial data to provide key performance measures facilitated by use of the following spreadsheets.

Data Spreadsheets to Support Ranch Cattle Annual Financial Closeout Options

1. Cow-calf Sales, Cattle Production, Sales, Death Loss and Transfer Data (2 spreadsheets).
2. Cattle and Horse Beginning and Ending Inventory.
3. Standardize Performance Analysis (SPA) Reproduction Data.
4. Feed Beginning and Ending Inventory.

Cow-Calf Benchmark Summary

Performance Summary

Females Exposed (Head)

Pregnancy Percent

Calves Weaned (Head)

Calf Crop or Weaning %

Average Weaning Weight
(Lb./Head)

Average Calf Price \$/Cwt.

Total Calf Revenue-Cash Sales

Total Non-Calf Revenue

Adjustment*

Total Revenue

Total Unit Cost -TUC

Total Operating Cost

Depreciation Cost

Interest Cost

Total Unit Cost - \$/BCU

Total Unit Cost-TUC - \$/Cwt.

Weaned

Net Income per BCU

Net Income per Acre

Average Assets Per BCU

Return of Assets (ROA)

Return on Equity (ROE)

**Beef Cattle Retained
Ownership Performance
Measures**

Head In
Average Weigh In
Average Weight Out
Death Loss - %
Days Fed
Net Gain
Average Daily Gain (ADG)
Net In Price \$/Cwt.
Net Sales Price \$/Cwt.
Total Unit Cost (TUC)
Net Income
Price Roll Back or Price Slide
Value of Gain (VOG)
Cost of Gain (COG)

All values are after death loss or net sales.

Prices are net of marketing costs.

Total unit cost (TUC) includes both direct and indirect costs.

Example of FFSC Recommend Financial Criteria and Ratios

Fiscal Year Dates	Fiscal Year 1/1/2021	2021 12/31/2021
Liquidity		
1. Current Ratio	3.00 :1	0.00 :1
Current Assets/Total Current Liabilities		
2. Working Capital as % of Gross Revenue	13.4%	6.7%
Current Assets - Current Liabilities/Gross Revenue		
Solvency		
3. Liabilities/Asset Ratio	0.04 :1	0.04 :1
Market basis: Total Liabilities/Total Assets		
Profitability		
4. Rate of Return on Ranch Assets		2.69%
Income from operations - owner withdrawals for unpaid labor and management/ Average assets.		
5. Rate of Return on Ranch Equity		2.81%
Income from operations - owner withdrawals for unpaid labor and management/Average equity.		
6. Operating Profit Margin Ratio		0.36 :1
Income from operations - owner withdrawals for unpaid labor and management/Gross revenue.		
7. Asset Turnover Ratio		0.07 :1
Gross revenue/Average total assets		
Prepayment Capacity		
8. Debt Coverage Ratio		0.15 :1
Repayment & replacement capacity/Total schedule principal and interest business and personal payments.		

9. Replacement Coverage Ratio **5.76 :1**

Repayment and replacement capacity divided by replacement allowance/unfunded capital expenditures.

Financial Efficiency

10. Operating Expense Ratio **49.9%**

Total Operating expenses - depreciation
- amortization/gross revenue

11. Depreciation/Amortization Expense Ratio **10.9%**

Depreciation + Amortization Expense/Gross Revenue

12. Interest Expense Ratio **2.4%**

Interest Expense/Gross Revenue

13. Income from Operations Ratio **36.8%**

Income from Operations/Gross Revenue

References:

Farm Financial Standards Council. “*Financial Guidelines for Agricultural Producers*”, Revised 2022. WWW.ffsc.org.

Texas A&M University – Department of Agricultural Economics Beef Cattle Decision Aids
<http://agecoext.tamu.edu/resources/decisionaids/beef>