User Guide Addressing Additional Data Needs for Preconditioned Retained Ownership

The accounting methodology and financial reporting is the same for the cow-calf and this **preconditioned retained ownership** decision aid's financial reporting. The additional data and reporting for retained ownership of raised weaned calves and also purchased calves for resale to market as preconditioned calves. **The key of this decision aid version is the cattle must be marketed before the end of the fiscal year. Sales of calves is reported as cash IRS income.**

An alternative version of the decision aid is titled a "Cow-calf-Feeder Financial -Cattle Benchmarks" that report for **cattle carried over** to the next fiscal year. Calves are born in one year but due to the long-term feeding period are marketed in the following year. Special accounting transaction are required for **carry over cattle**.

For the cow-calf ranch retaining weaned calves is an increasingly important production and marketing alternative. This financial reporting and financial management provide the opportunity to not only measure the ranch business financial performance but a measure of actual realized profitability of retaining ownership.

The cash accounting for IRS Schedule F needs some additional subaccounts to facilitate the generation of income and expense data for including retained ownership. This includes subaccounts for feed costs, health and treatment and purchase cattle cost of resale cattle.

Accrual adjustments are increasingly important as retained ownership can result in calves being held to feed and marketed in the fiscal year following the year they are born. This means the cash income of the raised weaned calves is moved to the next fiscal year for IRS reporting. This is why accrual adjustment must be part of business financial reporting.

Accrual adjustment consists of reports in three reporting areas – Income - Livestock Inventory for Sale, Expense Investment in Livestock or Growing Crops. The balance sheet reports in current assets the Value of Growing Cattle or Crops. Prepaid expenses can be used to manage cash IRS tax reporting when used with care.

The separate sheet in the feeder cattle decision aid does facilitate recording the preconditioning retained ownership and purchase for resale cattle that cross fiscal years.

It is important to ensure all cattle prices are net of marketing costs.

The cattle inventory and cattle sales spreadsheet facilitate recording inventory and sales data used to support recording accounting data and meeting accrual adjustments.

Expenses are divided or allocated between direct costs and indirect costs. Direct costs are allocated to the specific retained ownership production activity. Indirect costs are allocated between production and marketing cattle activities based on the head days in production for cow-calf and retained ownership alternatives.

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Value of Gain Versus Cost of Gain

The decision to sell calves when weaned or to retain is dependent on the value of the added weight gain (**VOG**) versus the cost of added gain (**COG**). The reference site lists decision aids that are useful to evaluate the possibility of retained ownership being profitable. This accrual adjusted accounting data spreadsheet provides the report that shows **"what actually happened".** Did the retaining ownership add net income – profit – versus sale at weaning?

It is advisable to review and work the retained ownership decision aids before adding subaccounts in the accounting system set up for cash tax accounting to facilitate measuring the profitability of retained ownership. The tax CPA can assist in this phase

A few areas of guidance in working with the cow-calf precondition spreadsheet.

1. Always ensure all cattle reported income and **prices are net of marketing costs.**

2. If retaining ownership requires keeping the calves beyond the tax fiscal year it means no cash income is reported in the year the calves are born. Be sure to report their estimated net market value in the accrual adjustment sheet and on the balance sheet. This should be also shown in the **beginning and ending cattle inventory**. And cash sales are shown in the next fiscal year. It's helpful to identify cattle by the year they are born.

3. Good production data is a necessity to calculate retained production and financial performance results. Initial weaning weights and market weights are key to measuring performance.

4. The example spreadsheet illustrates data needs for retained calves and also cattle purchased for resale. Accounting subaccounts must be set up to keep raised separate from purchase for resale. IRS requires reporting not only the cash income from their sale but the purchase cost of these cattle.

5. **Price roll-back** is critical in determining retained ownership profitability. This is the difference in the **retained sales price** versus the **weaned sale value** if sold or purchase cost per cwt. If the price roll back of the heavier feeder is too great or lower COG is required make the added gain profitable. When evaluating retained ownership opportunities always consider price roll back. The values are reported in the decision aid.

6. In current specialized markets or **program calf markets** the preconditioned calves can proved a price roll up. A premium is paid for these special program cattle offsetting the added cost to meet market requirements.

7. Retained ownership opens up many specialized marketing alternatives. The key is to learn the rules and change management system to meet the market requirement. Communicate with experienced producers and veterinarians. No one has to be a pioneer to design and manage retained ownership.

8. Use the other decision aid that facilities the accounting and reporting for calves carried over to the next fiscal year they were born in. It's the **d**. C**ow-Calf Feeder Financial-Cattle Benchmarks** decision aid. See reference below.

9. Recall **"what gets measured gets managed"**. Adding measured profitability is rewarding for the added marketing, management and risk of retained ownership.

Reporting the financial data is facilitated by adding expense subaccounts for the different categories of retained ownership cattle. The key is there are three categories of cattle to assign income and expenses.

16 Feed*

Retained Raised Steers
Retained Raised Heifers
Purchase for Resale

31. Veterinarian, Breeding & Medicine**

Retained Raised Steers – Health
Retained Raised Heifers – Health
Purchase for Resale

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*Includes all feeds and grazing expenses.
** Includes both health and treatment of cattle. Other direct costs can be added to the health subaccounts.

References:
Texas A&M University – Department of Agricultural Economics Beef Cattle Decision Aids http://agecoext.tamu.edu/resources/decisionaids/beef. See section **D. Retained Ownership and K. Preconditioning Profitability Decision Aids.**