

# AGRICULTURAL FINANCIAL AND TAX PLANNING Management Accounting Systems

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Last month's article focused on the cattle market forecast and operation budgeting, and it noted that even with the implementation of the best tax saving ideas and plans, all efforts become worthless if the operation is not making money. Therefore, the focus of the next few articles will continue to be on getting back to the basics of making an operation profitable. That begs the question, what is needed to make a ranching operation successful?

As stated in last month's article, in a tight cattle market it is imperative that costs be controlled. In order to do so, operation manager must obtain good financial records which provide accurate and timely information. How is this accomplished? The key is to have a comprehensive user-friendly accounting system which speaks to each main user of the system. There are three main user groups that utilize accounting systems: tax authorities, lenders/investors and operating managers. From our experience most accounting systems are set up to cater to the first two groups by providing comprehensive tax and financial reporting, but lack adequate accounting records to better serve the operating managers. In this article, let's dive into what ranch operating managers need to have in an accounting system to better serve their business.

## **Timeliness and accuracy of the information**

Properly recording the data is the initial step. Information is constantly created and your data input provider should record that information daily. The information should be summarized and reviewed monthly. Since a piece of data can be missed or a clerical error in recording data might be made, best practice requires that the data be verified.

Verification is accomplished by setting up reconciliations that confirm the accuracy of the input such as bank reconciliations, inventory counts, etc. A quarterly review with your accounting professional is recommended. Make sure that the data input person, if that be you, your spouse, or a hired accounting person, develops a routine and keeps it consistent. The system should be designed so it will provide meaningful information, which can impact the management of the business along with the basic information needed for financial and tax reporting. There are a number of accounting systems available that vary widely in design and price. A minimal system like Quickbooks Pro can be purchased for less than \$250, but the implementation to establish a management accounting system out of it requires much more time and effort. Take the time to pick a system that will meet your needs. It is recommended to consult an accounting/tax professional in the design of your system.

## **How is the information summarized for Management Accounting**

Most operations have a system that provides the basic tax and financial reporting information, so we will focus on the management accounting component. The system should have a standard chart of accounts that include the following:

- Specific profit centers (“PC”), which include accounts for EACH commodity or activity that the ranch sells. Examples of these might be 2015 steers, 2016 calves wildlife, etc.
- Specific Cost Centers (“CC”), which accumulate relevant costs based on your operation that will be transferred to and absorbed by the appropriate PCs. Examples of these might be hay, grazing, 2015 replacement heifers etc.
- General Support Centers (“GA”) for types of expenses that cannot readily be allocated and will eventually be paid by PCs such as management labor and interests.

It should be detailed and include information that is more than just dollars and cents like “herd head count” by class etc. Setting up the system takes time and effort.

## **The payoff is in how the gathered information is used**

By having accurate and timely information, comparisons may be made during the production cycle that will allow management to make better decisions to optimize profit potential. Once the accounts are established, management reports may be developed to provide current information by CC and PC with the ability to compare a current time period to a prior year’s comparable information such as, monthly, year to date, and rolling twelve month comparisons. Management can also compare their operations against benchmarks like those found in Standardized Performance Analysis (“SPA”) from Texas A&M. Those benchmarks are based on information that includes Texas, Oklahoma and New Mexico. Another source of benchmarks is from the farm financial planning and analysis software (“Finbin”) from the University of Minnesota. We are currently working to identify meaningful benchmarks for the small, medium and large Florida cattle operations. Below in the first column are some numbers from North Dakota’s Farm Business Management (“ND-FBM”) as an example of benchmark information currently available. In the second column are a few comparable estimates that we understand are used by some Florida ranchers.

Table 1

Benchmark 2015 herd performance data Per cow (82 herds)	NB-FBM	FL Est.
Number of cows	157	unknown
Pregnancy Percentage	95.6%	97.0%
Pregnancies lost Percentage	2.2%	2.0%
Culling Percentage	14.1%	unknown
Calving Percentage	93.5%	95.0%
Weaning Percentage	88.5%	90/0%
Calves sold per cow	0.94	unknown
Calf death loss percentage	5.0%	5.0%
Average weaning Weight	556	550
LBS weaned per Cow exposed	491	unknown

Table 2

215 Net Economic returns per cow		
Per cow (82 herds)	NB-FBM	FL Est
Gross Income	\$1,266	unknown
Pasture cost	134	\$265
Winter feed cost	226	30
Total annual feed cost	361	unknown
Vet and medicine cost	30	\$25
Livestock costs		
Supplies	13.89	unknown
Fuel and Oil	24.27	unknown
Repairs	43.10	unknown
Custom hires	13.54	unknown
Marketing	5.64	unknown
Operating Interest	10.14	unknown
Total Livestock Cost	\$111	unknown
Total direct Cost	501	\$575
Overhead Cost		
Hired Labor	\$13.70	unknown
Farm Insurance	12.16	unknown
Utilities	11.57	unknown
Interest	11.70	unknown
Machine & Building depr.	41.62	unknown
Miscellaneous	16.95	unknown
Total Overhead Costs	\$108	unknown
Replacement (Bulls & females)	371	unknown
Total Economic costs	\$980	unknown
Economic net returns	\$286	unknown

Do your records provide an accurate “pasture cost per cow”? That cost should include fertilizer, herbicide, fire ant control, liming, fuel, equipment operating, labor and controlling evasive grasses like tropical soda Apple and Smut grass. Simply put, do your records provide the type of information so you can compare your operations to available benchmarks that are currently available or that may soon be available? As stated above, even if meaningful third party numbers are not currently available, you can use your own past operations as benchmarks to see where an improvement and/or slippage is occurring as a means to timely identify cost savings opportunities.

### **Current forecast for the cattle industry**

Livestock Marketing Information Center in the middle of June forecasted the feeder steers in the 700 to 800 grouping for the fourth quarter of this year will be \$146 to \$150 per cwt. That said, Wes Ishmael in his July 2016 article “Best Risk Strategy Options” states;

“everybody’s resources and goals are different, but a few time-proven basics emerge as at least parts of the strategy:

- Know your cost and look for ways to carve gains on the input side of the equation
- Preserve and add value – castrating, dehorning, lost size and the like can prevent discounts...
- Determine a rational selling price, relative to know cost...”

If your system does not provide ranch management with the information to identify those cost that might be susceptible to “carving”, then it might be time to reevaluate your management reporting system.

### **Summary**

The main purpose of this article is to highlight the importance of having a management accounting system that provides timely and relevant information which enables a rancher to identify options to maximize profit. To accomplish this, the pertinent data must be identified, recorded daily in an adequate system, and confirmed and summarized into a meaningful report. In this period of market flux, good financial information is critical for the manager to make the correct timely decision. If the financial system in your business does not provide good information timely, consideration should be given to updating that system and/or to find a financial advisor to help provide the information and analysis for you.

For more information on this topic and other tax and financial planning for ranching, please contact me at (863) 640-2008 or [Tom@beasleybryantcpa.com](mailto:Tom@beasleybryantcpa.com) and/or Ryan Beasley at (863) 646-1373 or [Ryan@beasleybryantcpa.com](mailto:Ryan@beasleybryantcpa.com) . Please visit our website at [www.beasleybryantcpa.com](http://www.beasleybryantcpa.com) for information on other relevant topics.

We at Beasley, Bryant & Company, CPA’s, P. A. are experienced in agricultural business problems, tax issues or concerns, and are here to help you.

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