

Suggestions for Setting up Expense and Revenue Accounts in Quick Books Pro™ for Cow-Calf and Retained Ownership Ranches

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) of production calculation by production activities.

The purpose of this guideline is to facilitate setting up QuickBooksPro™ (QB) accounting software to accomplish the goal of meeting IRS and cost monitoring and management needs. Using the QB class feature for different production activities facilitates cost accounting for reporting expense and revenue data by cow-calf versus retained ownership or crop production activities. The class P& L reports can be exported to an Excel™ spreadsheet facilitating analysis adjusting for select data needs for budgeting and cost calculations.

QuickBooks Implementation

1. Ninety percent of the ranch bookkeeping and reporting needs can be accomplished using Intuit’s Quick Book Pro™ (QB) software when it is properly set up. This requires:
 - Communicate with CPA in set up and implementation to insure compliance with tax reporting needs spelled out by the CPA.
 - Define a chart of accounts that provides more detail on revenue and expense items than required by IRS reporting.
 - Identify costs and revenue by activity in QB for cost analysis using classes in QB. QB is widely used in agriculture and small businesses and costs around \$300.

2. Bookkeeping activities to accomplish:
 - Payment of all bills, record revenue in timely manner.
 - Reconcile bank statements monthly.
 - Insure payroll compliance and reporting to employees.
 - Provide cash P&L statements monthly to the owners.
 - Combine the P&L with other financial and production reports using Excel.
 - Coordinate preparation of monthly and quarterly cash reports with CPA.
 - Facilitate annual tax and managerial financial statement preparation.

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3. Outside of QuickBooks Pro™ (see later section for Ranch MIS Supporting Spreadsheets):
 - Need an annual capital expenditure plan and maintain depreciation schedule.
 - Provide the annual budget and monitoring reports and comply with the lenders reporting requirement.
 - A production and marketing plan that supports a cash flow budget that can be maintained in QB.
 - Use class reports to provide data for cost accounting reporting.
 - Complete accrual adjusted financial statements annually.

Be careful adding too much detail in defining accounts. It's so easy to run detail reports to see transactions in QB. **It's easy to be a cost splitter on Monday but by Friday you will want to be a lumpier!**

Exporting P&L reports to Excel is great for analysis while not “messing up” revenue and expense transactions.

It's critical for the business CPA to be involved in setting up or modifying QuickBooks™ to insure IRS reporting needs are met in addition to the detail recommended here for cost and management data.

Listed below are the IRS expense accounts and examples of classes for a cattle 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 income cattle accounts will add this detail.

Suggested expenses chart of accounts using IRS Tax “Profit or Loss from Farming”, Schedule F for a ranch with cow-calf, ranch retained ownership, custom finished and crops production activities are as follows.

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

- | | |
|----|------------------------------|
| 12 | Car and Truck Expense |
| 13 | Chemicals |
| 14 | Conservation Expense |
| 15 | Custom Hire (machine work) |
| 16 | Depreciation |
| 17 | Employee Benefits Programs |
| 18 | Feed Purchase |
| | Roughage |
| | Complete Feed or Concentrate |
| | Mineral & Salt |
| | Protein Supplement |
| 19 | Fertilizer & Lime |
| 20 | Freight & Trucking |

- 21 Gasoline, Fuel, & Oil
- 22 Insurance
- 23 Interest Expense
 - a. Mortgage - Real Estate Interest
 - b. Other Interest - Non Real Estate
- 24 Hired Labor & Management – (sub accounts are added detail)
 - Salary
 - Payroll Expenses
 - Contract Labor
- 25 Pension & Profit-sharing Plans
- 26 Rents or Leases
 - Vehicles, Machinery, & Equipment
 - Land - (Cash Lease)
- 27 Repairs & Maintenance (subaccounts are added to give more detail on expenses)
 - Vehicles
 - Machinery & Equipment
 - Buildings & Improvements
- 28 Seed & Plants
- 29 Storage and Warehousing
- 30 Supplies Purchased
- 31 Taxes (non IRS)
- 32 Utilities
- 33 Veterinary & Medicine
- 34 Other Cash Expenses Specify see list below
 - Purchased Cattle for Resale (detail categories) **
 - Professional Fees
 - Office (user defined subcategory details)
 - Supplies
 - Utilities
 - Administrative Wages & Payroll

Owner Operator Compensation***

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

**Purchased calves, stocker or feeders for Resale – includes freight cost and other marketing costs.

**Can set up for retained raised ownership or purchased cattle as classes 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.

***Owner operator compensation or family living is not an IRS deductible expense.

Chart of Accounts Additions for Cattle sales in the IRS Schedule F “Profit or Loss from Farming”

IRS lumps all sales and adjustments into three accounts. Add details are required in chart of accounts categories of cattle. This is essential data for calculating costs and margins for retained ownership and also shows the importance of having an inventory for both purchased for resale and raised cattle.

Part I Farm Income – Cash Method – IRS Schedule F

1a. Sales of Livestock and other resale items

b. Cost or other basis of other items or other items reported in line 1a.

c. Subtract line 1b from line 1a

Under 1a record sales and b. record the cost of the purchased for resale.

Culled bulls and females purchased sales are included in 1a. and remaining basis in b. for breeding stock.

2. Sales of livestock, produce, grains, and other products you raise

All raised cattle including breeding cattle. Having details in the chart of accounts category is valuable information for cost calculation and projections.

Sales Accounts for commercial cattle categories – Needs to define purchased versus raised cattle.

Cull Cows

Cull Bulls

Breeding Heifers or Cows

Breeding Bulls

Cull Repl. Heifers

Weaned Steers

Weaned Heifers

Feeder Steers & Heifers

Finished Steers & Heifers

Futures or Options (+/-) Risk Mgmt.

Crops and raised feed (add detail as needed)

**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.

When setting up assets, liability and equity accounts **be sure to get the business CPA involved**. The lender can also be helpful. Explain to the accountant that management information is needed in addition to IRS compliance. The business CPA will assist in making entries to maintain these accounts and maintain the depreciation schedule. QuickBooks™ reports can be exported the Excel™ for calculation of costs and net income by activity without changing accounting transactions or compliance with IRS rules.

Suggested Ranch Classes in QB - Modify to fit the Individual Ranch***

- Cow-calf
- Replacement Heifers - if marketed otherwise just keep with cow-calf
- Retained Ownership
 - Background or grow yard if owned
 - Stocker or Yearling Grazing
 - Custom Finish
- Raised Feed and Crops
 - Raised Feed – define by crop
 - Grazing – especially where annual forages are produced
 - Hay production
 - Crops – define by crop
- Indirect Cost or Overhead

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

Indirect expenses class that will be allocated to production activities to get total unit cost.

Suggested accounts to record in the Indirect Expenses Class

Car and Truck Expense (seldom used as operating costs are recorded)
Gasoline, Fuel, & Oil
Employee Benefits Programs
Hired Labor & Management
 Salary
 Payroll Expenses
 Contract Labor (it 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)
Owner Operator Compensation (or withdrawals is not an IRS deductible expense).
Conservation Expense
Insurance
Utilities
Professional Fees
Office Supplies
Administrative Wages & Payroll

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

Cost and Profit Report Organization

When thinking about cost accounting always keep the final content in the report in mind. Cost reporting in the beef cattle sector is often incomplete. Reporting only cash cost leaving off depreciation and owner compensation two of the most significant cost is wrong and misleading. Costs are organized for activity, cow-calf or retained ownership cost accounting to report total costs, net income and profit as follows:

Revenue or Income and Net Income or Profit Center - P&L by class in QB

Revenue or Income - Production times **net price** – net of all marketing costs

- a) Gross Revenue or Income
- b) Total Direct Costs
- c) Total Indirect Costs
- d) Total Operating Costs (b + c)
- e) Finance Cost
- f) Total Cost or Total Unit Cost (TUC) (d + e)

Net Income or Profit (a-f)

Of course invoices and receipts organized in a consistent and standard way are very desirable. Getting the chart of accounts defined is the starting point. Accurate expense labeling and allocation of costs between different activities or classes is critical and time consuming by the bookkeeper. Clarity in definitions of costs helps for all involved from data collecting to reading reports.

In QB class P&L reports are exported to Excel™ to add indirect and finance costs to calculate total unit cost (TUC) and profit. Divide costs by units of production to calculate **Total Unit Cost**. It's always useful to express individual costs as a percent of TUC to get costs into proper perspective.

Indirect Cost Allocation

There is no set allocation procedure to follow. For ranches with a combination of cow-calf and retained ownership using head days is a simple approach when the head days are generated in a reconciled monthly inventory by category of cattle. There may be some logic to allocate more costs than to head days to the cow-calf during the calving season. Make notes on allocation procedures followed and be consistent from year to year. When budgeting knowing indirect costs per head insure costs include those indirect costs that must be covered. Break-evens are calculated based on total cost. Indirect costs are reported in the QuickBooks™ class report and this number is divided by total head days to calculate costs per day.

Bookkeeper, Data Collectors and Report Providers

Reward your bookkeeper and all the data collectors as they help you and your CPA avoid IRS auditors and keep a focus on the business performance. Monitor and use revenue and expense

reports information at least monthly will lead to cost savings and more informed decision making.

QB reports can be memorized so requesting reports is on call. Meet with the business tax accountant no later than October in a calendar fiscal year for tax planning.

Increased complexity of tax and regulation reporting compliance requires a greater amount of time. In this volatile decision environment knowing cost and net income by activity have never been more important. Financial sustainability is a challenge in ranching. Timely use of accounting data in decision making **is a cost effective activity.**

Measuring Ranch Profit Requires an Accrual Adjusted Income Statement

Using the IRS Schedule F “Profit or Loss From Farming” to measure costs of production and ranch business profitability is possible with some **serious 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.

This is a list of data needed to measure of business profitability that are not included in the Schedule F Cash Schedule F. Accrual adjusted income will be different for IRS cash profit or (Loss) for the following reasons:

1. **Compensation** for owner operators labor and management or family living withdrawals. Recall in a sole proprietorship this is not a tax deductible expenses so not included.
2. **Accrual adjustments** are required for changes in revenue from cattle and crops ready for sale, accounts receivable and change in expenses for change in feed inventories or supplies, prepaid expenses, accounts payable and accrued taxes, interest and investment in crops and unfinished cattle.
3. **Capital gains (losses)** for **purchased cattle** sales or capitalized cost of replacements added to the breeding herd or **base value of raised replacements** added and sold from the herd.

Spreadsheets are available to facilitate the collection and reporting date for these adjustments <http://agecoext.tamu.edu/decisionaids/>.

Reference:

Farm Financial Standards Council (FFSC). “*Financial Guidelines for Agriculture*”, Revised January 2016. [WWW.ffsc.org](http://www.ffsc.org).

Source of Beef Cattle Decision Aid Spreadsheets – Texas A&M University, Department of Agricultural Economics – <http://agecoext.tamu.edu/decisionaids/>

