

QuickBooks Pro™

for Ranching

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Texas Cooperative Extension

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Today's Course

- Introduction to QuickBooks Pro
- Introduction to Managerial Accounting Using QuickBooks pro

We can't teach it all today.

Start with the “End Product”

- **Ranchers need good financial records, but what is that?**
 - Meaningful information, which can impact the management of the business
- **We defined the End Product to be:**
 - Financial Statements
 - Beginning and Ending Balance Sheet
 - Profit and Loss Statement
 - Financial Analysis as defined by the Sweet 16 ratios as recommended by the FFSC.
 - Profit & Loss by Class
 - Total Unit Cost (TUC)
 - Commodity Cycle Reports



Question: How do we get there?

- Quicken won't get you there.
- QuickBooks Pro will partially get you there, however, some accounting knowledge is required and the program's flexibility can cause problems.

Another Problem...

Who is involved with the Information System & Who is in Control

- Lender
- Tax Accountant
- Data Entry Person (Daily Grind: Bookkeeper)
- Information User (Information manager:
both financial and production)

Another Problem...

Who is involved with the Information System & Who is in Control

- **Lender**

- Becomes the “quasi” information manager and user.
- Motive: Board Members/ Owners & Bank Auditors

- **Tax Accountant**

- Motive: Lower the producers tax liability. *Are they doing the producer a favor or not?*

Another Problem...

Who is involved with the Information System & Who is in Control

- **Data Entry Person (Daily Grind: Bookkeeper)**
 - Usually the spouse or the producer.
 - Either the system must be simple and user-friendly, or else this person better have some accounting knowledge.
 - Serves as the “Soul” of the system.
 - Motive: Typically thinks their motivation is to the tax accountant, however should be to the following...
- **Information User (Information manager: both financial and production)**
 - This is where most producers fall down.
 - Don't know how to generate it and/or don't know how to interpret and use the information.
 - Motive: Doesn't exist for most producers.

Managerial Accounting Using QuickBooks Pro

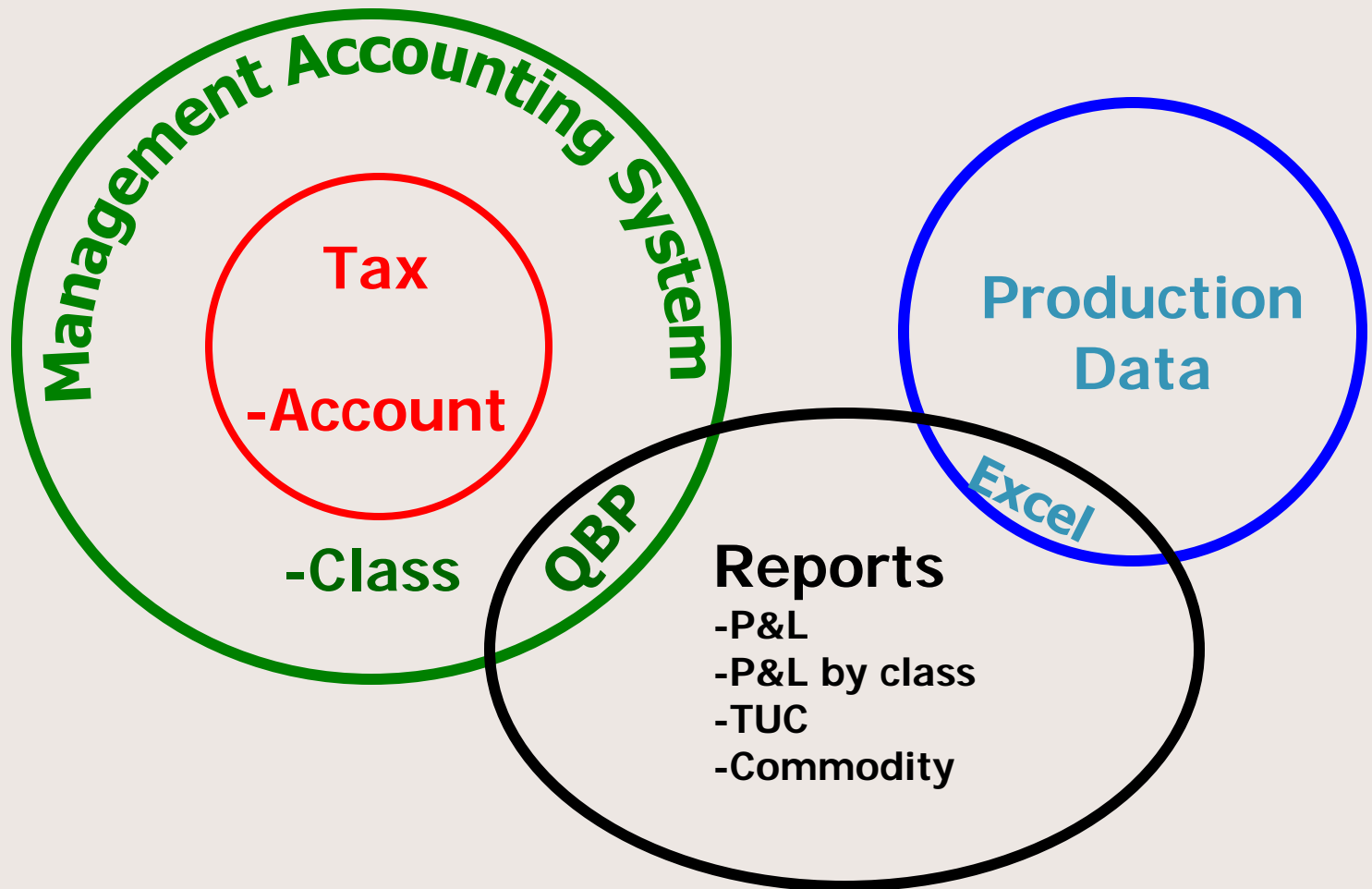
- Create the system with the end product in mind.
- Create a rigid structure for QB Pro and don't give the user many choices.
 - Our Chart of Accounts
 - Their Class List using Our Approach.
- Follow the Timeline...
 - Introduction to QuickBooks Pro (Daily Grind)
 - Advanced QuickBooks Pro (The Rest of the Story)
- Incorporate Microsoft Excel into the Training.

The Role of the Accounting System

- **Income Tax Preparation**
 - Comply with Federal tax laws
 - Minimize income tax
- **Management Information**
 - Access to transaction, balances, etc.
 - Determine profit (loss) for business
 - Determine profit (loss) for each activity
 - Determine financial health and performance
 - Provide information for strategic decisions



Accounting Relationships



Management vs. Tax Accounting

- **Major differences**
 - Tax = cash, MA = accrual adjusted
 - Depreciation method
 - Capitalization
 - Handling of “management and labor”
- **However, within the MA system, tax integrity is maintained**

Management vs. Tax Accounting

- **How is “tax” integrity maintained?**
 - MA transactions take place below “Net Ordinary Income”
 - Except for depreciation, mgmt. labor, cost of good sold, etc.
 - Tax preparer should re-calculate
 - MA transactions accomplished with “classes” and *additional accounts*

Management vs. Tax Accounting

- **Depreciation Differs**

- Tax = accelerated + sec 179

- Sec 179 = \$102,000 (2004) & \$104,000 (2005)

- Bonus = 30% or 50%

- Book = represents allocation of asset's cost over useful life

- Book depreciation can be easily provided with minimal cost

Management vs. Tax Accounting

- **Capitalization of raised livestock and establishment cost of crops**
 - Only if *determinable* useful life
 - If indeterminable, must expense in current year
 - Adheres to matching principle

Management vs. Tax Accounting

- **MA includes management (owner) labor as expense (non-deductible)**
 - There is value to the services provided
 - What would it cost you to hire someone to do what you do?

Management vs. Tax Accounting

- **Accumulated costs for incomplete classes are transferred to B/S**
 - Use journal entry to increase “Investment in ...” account (current asset) and decrease expense for that class
 - Recognized as expense in year income occurs (matching principle)

MA System Design



- **QuickBooks Pro**

“This is a \$250 program with a \$5000 design”

- Works with Excel to integrate production data
- Expanded chart of accounts
- “Step up” accounting
 - Profit, cost and support centers, where the profits centers must pay all expense

Implementing the MA System

- **Chart of accounts**
- **Set up classes**
- **The daily grind**
- **Reconcile bank accounts**
- **Reconcile loans ****
- **Other resources used (Mgmt Labor)**
- **Examine P&L by class**
- **Year end activities**
- **Create and analyze reports**



Implementing the MA System

- **Import chart of accounts**

- Add & delete accounts to fit your operation (use caution)
 - Understand the transfer accounts
- Includes B\S accounts
- Get to know your COA
- Print COA for reference



Implementing the MA System

- **Set up class list**

- Use sub-classes of PC, CC, SC

- PC = those activities (commodities) that sell a product at the end of the production cycle
- CC = “factories” that accumulate costs to be transferred and paid by other PCs
- SC = types of expenses that cannot readily be allocated and will eventually be paid by PCs

Implementing the MA System

Time Line

1. “Daily Grind”
2. Check *Unclassified* Column
3. Track Loans- Loan Transaction Histories
4. Update Asset List (Additions & Disposals)
5. Book Accrual Adjustments (Mgmt Labor & Other Resources Used)
6. Is it reasonable?

Implementing the MA System

Time Line

7. Allocate Support Centers
8. Transfer Cost Centers
9. Capitalize Unfinished Profit Centers
10. Reports
 - Profit & Loss by Class
 - FinAnalysis
 - Total Unit Cost
 - Commodity Reports

Implementing the MA System



- **The daily grind**

- Not much more than you should be doing already
- Assign account and class to every transaction that affects the IS
- Develop your routine and be consistent
- **Class exercise “Transaction Coding”**

Implementing the MA System

- **Reconcile accounts**

- Bank accounts (checking)

- Avoid NSF

- Payables

- Clean up bills to be paid

- Were note payments handled correctly?
(principle vs. interest)

Implementing the MA System

- **Reconcile Loans**

- Get “Loan Transaction History” from creditor
- Reconcile each loan advance and each payment with QuickBooks

- **Asset disposals/additions**

- “Book” asset disposals
- Was purchase made with check or loan proceeds? Was there a trade involved?

- **Management Labor**

- Your labor is a resource that was used by the business!

Seek advice or services of an accounting professional

Implementing the MA System

(Accounting Short Course)

- When you sell an asset, are the proceeds considered **Income**?
 - *Answer: Only the gain/loss on the sale is considered income/expense.*

Cost of Asset

- Accum. Depreciation

Basis

Proceeds

- Basis

Gain/Loss

Implementing the MA System

- **Examine P&L by class monthly**
 - Watch for “unclassified” transactions
 - Were transactions classified correctly?
 - Memorize re-occurring transactions

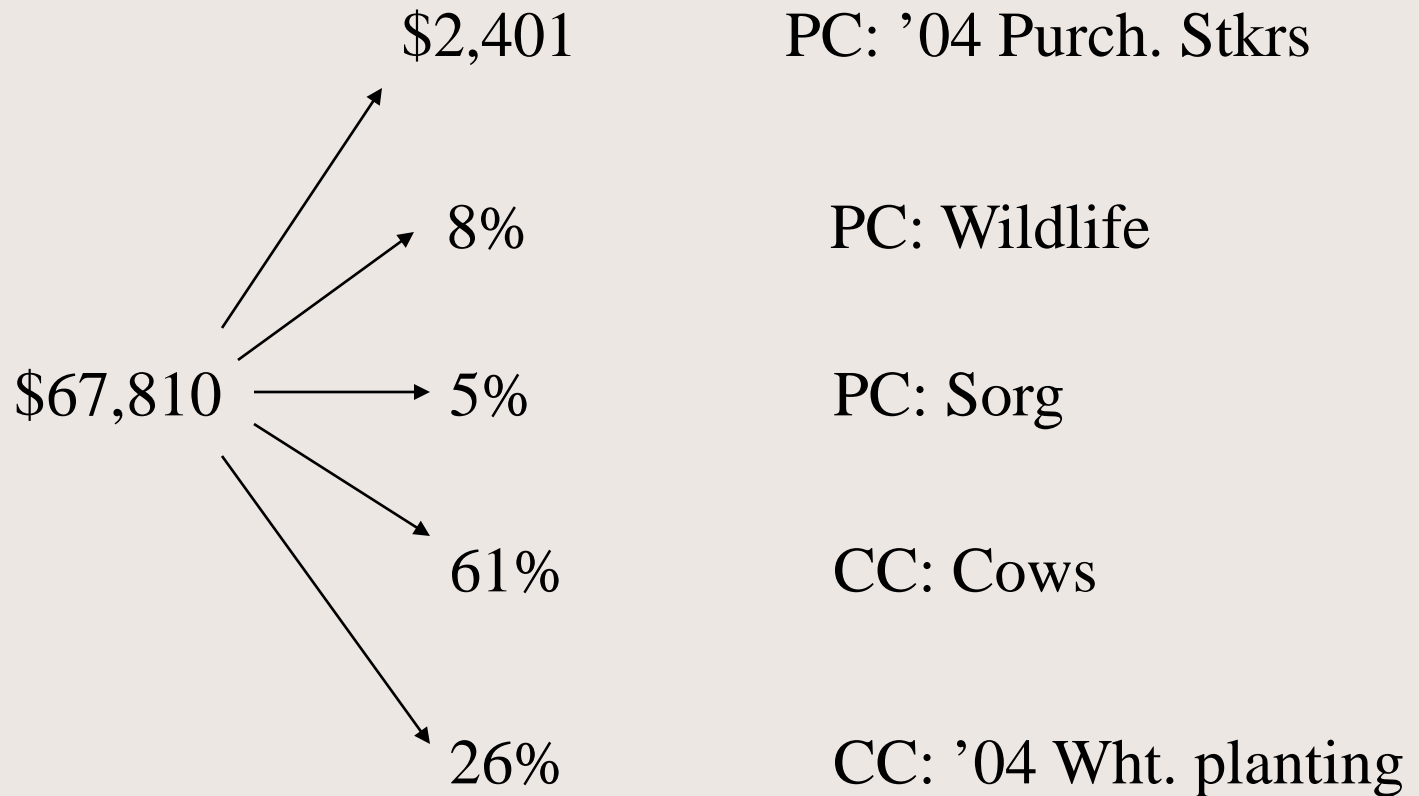


Year End Activities

- **Accrual adjustments**
 - Prepaid expenses, payables, receivables
 - Management labor
 - Inventory
 - Depreciation (straight-line basis)
- **Allocate support centers (Excel worksheets)**
- **Transfer cost centers (Excel worksheets)**
- **Send “incomplete” centers to the balance sheet**
- **Compile reports (Excel worksheets)**



Example SC Finance Allocation



After allocations are made, all support centers should have a zero net income.

YEA – Reports

- P&L (Net Ordinary Income) to CPA
 - P&L by class and balance sheet
 - Fin Analysis
 - Total Unit Cost Report
 - Commodity Reports
- Note: Bottom 3 reports combine with production data

MA Summary

- Tax vs. management accounting
- Accounting system design
- Activities
 - Daily
 - Annual
- Involve your CPA

Web Address for COA & Tutorials

Immediately, go here

<http://vernon-ctr.tamu.edu/agrisk/homepage.html>

In the future, go here

<http://agrisk.tamu.edu>

Who are we again?

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