QuickBooks Pro™
for Ranching

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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 Accounting System
- Tax
  - Account
  - Class
- QBP
- Reports
  - P&L
  - P&L by class
  - TUC
  - Commodity

Production Data

Excel
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
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 Proceeds
- Accum. Depreciation - Basis
  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

$67,810

- $2,401 PC: ’04 Purch. Stkrs
- 8% PC: Wildlife
- 5% PC: Sorg
- 61% CC: Cows
- 26% CC: ’04 Wht. planting

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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