



# FARM MANAGEMENT FACTORS

## Finance

A potential borrower may be asked to provide the following financial documents:

1. Net worth statement – provides a listing of assets and liabilities.
2. Cash flow statement – provides a listing of all cash coming in and going out.
3. Profit and loss statement – itemized estimates of incomes and expenses.

The borrower may be asked to estimate cash flow and profit and loss for the future year(s) in which the loan will be in effect. If the borrower is unknown to the lender, the lender may visit the farm and observe such factors as quality and amount of pastures, fencing, working facilities and water supplies. Also, a lender may ask about experience in raising cattle, education, family status, health, income, insurance, etc.

Major agricultural lenders include local banks, Farm Credit Service and the USDA Farm Service Agency. Other sources of funds are individuals, insurance companies and credit unions.

Two types of cattle loans are (1) annual operating loans and (2) intermediate loans. An annual operating loan is common for financing a feeder cattle venture, feed and other inputs for a cow-calf enterprise, or improvement in facilities and pastures. Intermediate loans commonly are made for purchase of cows, replacement heifers, bulls, equipment and major facilities. These intermediate loans are commonly set up with a timely repayment schedule.

## Income Taxes

An understanding of income tax principles can avoid overpayment of taxes. Two critical times exist for cattle producers – the beginning year and the ending year. Major tax management decisions must be made during the initial years of development of

a farm enterprise. These primarily involve expensing the investments over future years. Those individuals quitting the cattle business may face a large, unplanned income tax liability if careful attention is not given to a dispersal plan.

The complexities of income tax accounting coupled with almost always annual changes in tax laws create the need for the services of a tax advisor. Simply hiring a professional to file an annual tax return is not tax planning and management. Once a transaction is made, the accountant can only properly report the amounts on the client's tax forms. Ideally, a farm business manager would hire a professional who can advise on a regular basis and also prepare and file the income tax returns.

Arkansas has an income tax system, and the codes and regulations generally follow the Federal rules. Even though the income tax rate for Arkansas is lower than IRS rates, the payment can be substantial.

The *Farmer's Tax Guide* is available each year and provides much information for those interested in learning about managing income taxes. This publication is available by mail from the IRS or on the internet. It is not recommended as a substitute for a tax advisor, but it is highly recommended as a source of basic information for farmers.

## Budgeting

An enterprise budget is an organized listing of direct income and expenses associated with the enterprise. A budget can be prepared for the actual costs and returns for a past year, or it can be prepared for a future year. Obviously, a budget for next year will be an organization of estimates or guesses because most future events cannot be precisely predicted.

A well-organized, detailed enterprise budget requires much input and preparation time. The budget shown in Table 24 provides an excellent

example of a detailed budget for a commercial cow-calf herd. Many other budgets are available for 100-cow herds and 25-cow herds. These budgets can be prepared for most any herd size and actual farming situation.

Several supporting tables and bits of information were prepared prior to completing the budget (Table 24) and some of this information is as follows.

1. The composition of the 100-cow herd and values were:

Mature cows, 72 @ \$511	\$36,806
Three-year-old cows, 14 @ \$481	6,731
First-calf heifers, 14 @ \$465	6,505
Replacement heifers, 18 @ \$430	7,741
Breeding bulls, mature, 3 @ \$2,500	7,500
Breeding bulls, young, 1 @ 1,500	1,500
Total 122 head	\$66,783

2. Calving rate was assumed to be 92 percent with death loss rate of 2 percent. Results were 46 heifer and 46 steer calves. Steers were sold, 28 heifers were sold and 18 heifers were weaned and retained. Later, two of the heifers were culled at 750 pounds and two more were culled at 850 pounds. Two mature cows died, and three did not breed. Three mature cows delivered dead calves. Two calves died between birth and weaning.
3. Selling weights are the shrunk weights, and given a 6.0 percent shrink, the steers would have weighed about 452 pounds and heifers about 397 pounds. Also implied is the heifers retained for replacements were larger than the 28 sold by about 33 pounds.
4. The variable costs or cash costs as listed in the budget are illustrations of an operation with a

program of somewhat limited input but sufficient to maintain health and growth of a commercial herd. It is assumed that hay is fed at a rate of about 20 pounds per day for 90 days, and pasture is sufficiently available the remaining days of the year.

## Feeder Cattle Budgeting

Budgeting a feeder cattle production enterprise is less complex than budgeting a cow-calf enterprise. Feeder cattle production involves weaning and retaining calves from the cow-calf herd or buying calves. Lightweight feeder calves are generally grown from weaning weights of 300 to 600 pounds to 600- to 900-pound feeder cattle that are ready to be fattened and finished in the feedlot. Weight ranges vary with breed, producer's preferences and overall management practices.

Table 25 illustrates the budgeting of 70 steers on permanent pasture with hay and grain supplements with costs shown on a per-head basis. Calves, purchased or retained, were weaned at 350 pounds and had a price or value of \$96.18 per cwt. They were sold at a weight of 700 pounds at a price of \$82.81 per cwt. Other inputs include salt, mineral, vet-medicine supplies, over five hours of labor and others. One may want to include ear tags, implants, feed additives and other supplies as appropriate.

The gross receipts item shows the sale of a 700-pound steer at \$82.81 per cwt. Also shown is a 3 percent reduction in receipts for death loss and shrink.

Several other feeder cattle budgets are available from the Cooperative Extension Service. Also, some budgets include small-grain pasture program, detailed feeding and weight-gain plans and detailed fixed-cost estimates.

**TABLE 24. Estimated Resource Requirements, Costs, and Returns, 100-Cow Herd, Spring-Born Calves, 92% Weaning Rate, Moderate Fertilizer, Arkansas, 2002.**

Description	Unit	Quantity	Price or Cost/Unit	Value or Cost	Your Estimate
<b>Gross Receipts</b>					
Steer calves (550 lbs)	\$/hd	46	451.77	\$20,781.42	_____
Heifer calves (530 lbs)	\$/hd	28	397.29	\$11,124.06	_____
Replacement heifers (540 lbs)		18			_____
Cull replacement heifers (750 lbs)	\$/hd	2	517.58	\$1,035.15	_____
Cull open replacements (850 lbs)	\$/hd	2	399.08	\$798.15	_____
Cull cows (970 lbs)	\$/hd	12	371.70	\$4,460.45	_____
Cow death losses		2			_____
Other Losses (breeding failures)		3		\$0.00	_____
(stillborns)		3		\$0.00	_____
(deaths before weaning)		2		\$0.00	_____
<b>Total Receipts</b>				\$38,199.23	_____
<b>Direct Costs</b>					
<i>Fertilizer</i>					
Fescue Pasture	\$/acre	136	20.58	\$2,798.88	_____
Bermuda Pasture	\$/acre	94	20.58	\$1,934.52	_____
Hay Land	\$/acre	36	20.58	\$740.88	_____
<i>Feeding &amp; Operating</i>					
Corn (3 lbs/cow/day)	\$/hd/day	9,000	0.15	\$1,350.00	_____
Salt & Minerals	\$/bag	90	13.35	\$1,201.50	_____
Vaccinations	\$/pair	100	11.87	\$1,187.06	_____
Sick Treatment & Vet Charges <sup>1</sup>	\$	1	290.00	\$290.00	_____
Brucellosis (Bangs)	\$/hd	18	2.50	\$45.00	_____
<i>Marketing</i>					
Yardage, Insurance and Checkoff	\$/hd	90	3.15	\$283.50	_____
Hauling (50 miles)	\$/hd	90	2.70	\$243.00	_____
<i>Miscellaneous</i>					
Twine <sup>2</sup>	\$/bale	231	1.00	\$231.00	_____
Fuel <sup>3</sup>	\$/gal	800	1.05	\$840.00	_____
Truck	\$/month	9	35.00	\$315.00	_____
Other	\$	1	1,250.00	\$1,250.00	_____
<i>Repair &amp; Maintenance</i>	\$	1	1,396.16	\$1,396.16	_____
<b>Total Direct Costs</b>				\$14,106.50	_____
<b>Returns Above Direct Costs</b>				\$24,092.73	_____
<b>Ownership Charges</b>					
Capital Recovery (Equipment)				\$9,170.09	_____
Interest on Breeding Stock (50%)				\$2,003.51	_____
Property Taxes				\$431.75	_____
Insurance				\$690.80	_____
<b>Returns to Land, Management, Owner Equity and Labor</b>				\$11,796.58	_____

*Notes:*

<sup>1</sup>Medication and veterinary charges were assumed at the 5% rate and calculated for the entire herd.

<sup>2</sup>The number of bales is calculated using #1,020 of DM hay in an #1,200 bale, 15% hay waste, 14% additional consumption for replacements and herd sires for a 90-day feeding program @ #20 DM/cow/day.

<sup>3</sup>Fuel charges are calculated for the small tractor (2 gal/hr) with 100 hrs of use and large tractor (3 gal/hr) with 200 hrs of use.

SOURCE: Beef Cow-Calf Production Budgets for Arkansas, 2002.

**TABLE 25. Estimated Costs of Production, 70 Head, Feeder Steers on Permanent Pasture, Buy at #350 Sept. 15, Sell June 15, Stocking at 1.25 Head Per Acre, Option 1.**

Description	Unit	Price	Quantity	Value or Cost	Your Estimate
<b>Gross Receipts</b>					
Feeder Steer	cwt	82.81	6.99	578.85	_____
Less: Shrink (3%)	cwt	82.81	0.21	17.37	_____
<b>Total Receipts</b>				<b>561.49</b>	_____
<b>Direct Costs</b>					
Steer Calf	cwt	96.18	3.50	336.62	_____
Direct Permanent Pasture <sup>1</sup>	head	44.71	1.00	44.71	_____
<i>Purchasing and Receiving of Cattle</i>					
Buying	cwt	0.75	3.50	2.63	_____
Hauling, Receiving	mile	0.04	50.00	2.15	_____
Initial Treatment <sup>2</sup>	head	8.74	1.00	8.74	_____
Death Loss <sup>3</sup>	head	10.83	1.00	10.83	_____
<i>Feeding and Operating Charges</i>					
Sick Treatment <sup>4</sup>	head	1.56	1.00	1.56	_____
Pasture Checking <sup>5</sup>	\$/hd/month	0.52	9.00	4.64	_____
Hay (as fed)	lbs	0.03	1,105.00	27.63	_____
Salt and Minerals	\$/hd/month	0.70	9.00	6.30	_____
<i>Selling and Shipping</i>					
Hauling, Shipping <sup>6</sup>	miles	0.03	400.00	11.78	_____
Checkoff	head	1.00	1.00	1.00	_____
Repair & Maintenance	head	2.97	1.00	2.97	_____
Operating Interest	head	9.82	1.00	9.82	_____
<b>Total Direct Costs</b>				<b>471.37</b>	_____
<b>Returns Above Direct Costs</b>				<b>90.11</b>	_____
<b>Ownership Charges<sup>7</sup></b>	head	26.28	1.00	<b>26.28</b>	_____
<b>Returns to Land, Management, Owner Equity and Labor</b>				<b>63.83</b>	_____

Notes: Steer prices are 10-year averages.

<sup>1</sup>Direct permanent pasture charges are the total direct per acre costs divided by the stocking rate (1.25 hd/ac).

<sup>2</sup>Initial treatment includes vaccination at \$3.72/hd, Ralgro® at \$1.02/hd and a \$4 feed cost per head for receiving.

<sup>3</sup>Death loss is calculated as the total value of animals received x 3% death loss and adjusted to a per head sold basis.

<sup>4</sup>Sick treatment occurs at a rate of 5% of animals for the first month and 2% of animals for second month on feed as well as for December and January.

Sick treatment is charged at \$14 per animal treatment.

<sup>5</sup>Pasture checking involves a monthly charge of \$35 and is divided by the number of head sold.

<sup>6</sup>Hauling charges may be lower if cattle are sold to a local sale barn, but yardage and insurance will have to be paid. Yardage charges are from \$1.50 to \$2.00 per head. Insurance is often \$0.30 to \$0.50 per head.

<sup>7</sup>Ownership charges are capital recovery, taxes and insurance on a per head sold basis. The fixed cost component (capital recovery on equipment only) of the permanent pasture charge is also included on a per head sold basis. These charges are incurred whether feeding or not and may be excluded when calculating a short-term breakeven selling price. Ownership charges are dependent on the scale of production implemented. Different stocking rates would have an impact on ownership charges.

SOURCE: Feeder Cattle Production Budgets for Arkansas, 2002.