

# 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 from the IRS and provides much information for those interested in learning about managing income taxes. 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 budgets shown in Tables 13-1 and 13-2 provide excellent examples of detailed budgets for a commercial cow-calf herd. These budgets can be prepared for most any herd size and actual farming situation.

### 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 13-3 illustrates the budgeting of 320 steers on permanent pasture with hay and grain supplements with costs shown on a per-head basis. Calves, purchased or retained, weighed 400 pounds and were valued at \$300 per cwt. They were sold at a weight of 730 pounds at a price of \$195 per cwt. Other inputs include grazing lease, vet medicine, mineral, supplementation, hay, fuel, etc. One may want to include ear tags, implants, feed additives and other supplies as appropriate. Also shown is a 2 percent reduction in receipts for death loss.



Table 13-1

**Arkansas Cow/Calf Budget per Cow and Total Cow Herd, 2016**

Calving rate, percent	85.00%	0.050	Bull per cow			
Death loss for cow herd, percent	2.50%	0.125	Full retained heifer replacement rate			
Death loss for calves, percent	0.00%	0.125	Retained heifer replacement rate			
Cows per bull	20.00	0.300	Heifers sold	Head	12.0	
Head, cow herd	40	0.425	Steers sold	Head	17.0	
Cull cows sold from cow herd, percent	10.00%	4.0	Head, cull cows sold			
Percent of full retained heifer replacement rate	100.00%	5.0	Head, retained replacement heifers			
Purchased heifers, not bred for current year	0	0.0	Head, cow herd change			
	Revenue	Unit	Quantity	Price	\$ per Cow	Total \$
Cull Cows		lb.	1,100	0.70	77.00	3,080
Heifer Calves		lb.	520	1.60	249.60	9,984
Steer Calves		lb.	550	1.80	420.75	16,830
<b>Total Revenue</b>					<b>747.35</b>	<b>29,894</b>
Operating Expenses						
Pasture Production		acre	2.25	35.00	78.75	3,150
Hay Production		acre	0.00	122.99	0.00	0
Purchased Hay per Cow		ton	2.25	60.00	135.00	5,400
Supplemental Feed for Cows		lb.	495.00	0.095	47.03	1,881
Supplemental Feed, Replacement Heifers		lb.	675.00	0.095	8.02	321
Supplemental Feed, Bulls		lb.	0.00	0.000	0.00	0
Supplemental Feed, Calves Sold		lb.	0.00	0.000	0.00	0
Salt, Minerals for Cows		lb.	90.00	0.360	32.40	1,296
Veterinary & Medicine for Cows		head	1.00	22.00	22.00	880
Veterinary & Medicine, Replacement Heifers		head	0.13	9.00	1.13	45
Veterinary & Medicine, Bulls		head	0.05	59.00	2.95	118
Veterinary & Medicine, Calves Sold		head	0.73	10.73	7.78	311
Other Expenses		head	1.00	0.00	0.00	0
Labor, Hired		hours	0.00	12.00	0.00	0
<b>Production Expenses</b>					<b>335.05</b>	<b>13,402</b>
Interest, annual rate: paid for 6 months		\$	335.05	4.75%	7.96	318
Hauling and Auction for Calves & Cull Cows		head	0.83	44.24	36.49	1,460
Land Rent		acre	0.00	0.00	0.00	0
<b>Total Operating Expense</b>					<b>379.50</b>	<b>15,180</b>
<b>Returns to Operating Expenses</b>					<b>367.85</b>	<b>14,714</b>
Fixed Costs						
Livestock Facilities & Equipment		head	1.00	666.82	117.73	4,709
Pasture & Hay Machinery, Equipment		head	1.00	513.61	105.89	4,236
Purchased Breeding Stock		head	1.00	175.00	29.44	1,178
Purchased Heifers, not bred for current year		head	0.00	1,500.00	0.00	0
<b>Total Fixed Costs</b>					<b>253.06</b>	<b>10,122</b>
<b>Total Specified Expenses</b>					<b>632.56</b>	<b>25,302</b>
<b>Net Returns</b>					<b>114.79</b>	<b>4,592</b>

Developed by Archie Flanders, Extension economist, University of Arkansas System Division of Agriculture



Table 13-2

**Arkansas Cow/Calf Budget per Cow and Total Cow Herd, 2016**

Calving rate, percent	85.00%	0.050	Bull per cow			
Death loss for cow herd, percent	2.50%	0.125	Full retained heifer replacement rate			
Death loss for calves, percent	0.00%	0.125	Retained heifer replacement rate			
Cows per bull	20.00	0.300	Heifers sold	Head	12.0	
Head, cow herd	40	0.425	Steers sold	Head	17.0	
Cull cows sold from cow herd, percent	10.00%	4.0	Head, cull cows sold			
Percent of full retained heifer replacement rate	100.00%	5.0	Head, retained replacement heifers			
Purchased heifers, not bred for current year	0	0.0	Head, cow herd change			
	Revenue	Unit	Quantity	Price	\$ per Cow	Total \$
Cull Cows		lb.	1,100	0.70	77.00	3,080
Heifer Calves		lb.	520	1.60	249.60	9,984
Steer Calves		lb.	550	1.80	420.75	16,830
<b>Total Revenue</b>					<b>747.35</b>	<b>29,894</b>
Operating Expenses						
Pasture Production		acre	2.25	35.00	78.75	3,150
Hay Production		acre	0.75	122.99	92.24	3,690
Purchased Hay per Cow		ton	0.00	60.00	0.00	0
Supplemental Feed for Cows		lb.	495.00	0.095	47.03	1,881
Supplemental Feed, Replacement Heifers		lb.	675.00	0.095	8.02	321
Supplemental Feed, Bulls		lb.	0.00	0.000	0.00	0
Supplemental Feed, Calves Sold		lb.	0.00	0.000	0.00	0
Salt, Minerals for Cows		lb.	90.00	0.360	32.40	1,296
Veterinary & Medicine for Cows		head	1.00	22.00	22.00	880
Veterinary & Medicine, Replacement Heifers		head	0.13	9.00	1.13	45
Veterinary & Medicine, Bulls		head	0.05	59.00	2.95	118
Veterinary & Medicine, Calves Sold		head	0.73	10.73	7.78	311
Other Expenses		head	1.00	0.00	0.00	0
Labor, Hired		hours	0.00	12.00	0.00	0
<b>Production Expenses</b>					<b>292.29</b>	<b>11,692</b>
Interest, annual rate: paid for 6 months		\$	292.29	4.75%	6.94	278
Hauling and Auction for Calves & Cull Cows		head	0.83	44.24	36.49	1,460
Land Rent		acre	0.00	0.00	0.00	0
<b>Total Operating Expense</b>					<b>335.73</b>	<b>13,429</b>
<b>Returns to Operating Expenses</b>					<b>411.62</b>	<b>16,465</b>
Fixed Costs						
Livestock Facilities & Equipment		head	1.00	724.78	127.25	5,090
Pasture & Hay Machinery, Equipment		head	1.00	1,044.80	202.89	8,115
Purchased Breeding Stock		head	1.00	175.00	29.44	1,178
Purchased Heifers, not bred for current year		head	0.00	1,500.00	0.00	0
<b>Total Fixed Costs</b>					<b>359.58</b>	<b>14,383</b>
<b>Total Specified Expenses</b>					<b>695.31</b>	<b>27,812</b>
<b>Net Returns</b>					<b>52.04</b>	<b>2,082</b>

Developed by Archie Flanders, Extension economist, University of Arkansas System Division of Agriculture

**Projections for Planning Purposes Only**  
**Table 13-3. 2015 Estimated Costs and Returns Per Animal**  
**Stockers on Native Pasture – 320 Head**

<b>Number of Head</b>	320					
<b>REVENUE</b>	<b>Head</b>	<b>Pay Weight</b>	<b>Units</b>	<b>\$/Unit</b>	<b>Total</b>	<b>Enterprise Total</b>
Stocker	0.98	7.30	CWT	\$195.00	\$1,395.03	\$446,409.60
Total Revenue					\$1,395.03	\$446,409.60
<b>VARIABLE COSTS</b>		<b>Quantity</b>	<b>Units</b>	<b>\$/Unit</b>	<b>Total</b>	<b>Enterprise Total</b>
Production Costs						
Stocker Purchase		4.00	CWT	\$300.00	\$1,200.00	\$384,000.00
Grazing						
Acre Lease		4.00	Acre	\$8.00	\$32.00	\$10,240.00
Health						
Vet. Medicine - Stocker		1	Head	\$7.00	\$7.00	\$2,240.00
Feed						
Bermuda Hay Bale		4	Bale	\$6.00	\$24.00	\$7,680.00
Mineral - Stocker		0.263	CWT	\$15.00	\$3.95	\$1,262.40
Supplement - Stocker		0.75	CWT	\$10.75	\$8.06	\$2,580.00
Miscellaneous						
Miscellaneous		1	Head	\$4.00	\$4.00	\$1,280.00
Fuel		1	Head	\$3.71	\$3.71	\$1,187.13
Lube (As a % of fuel)		10.0%	Percent	\$3.71	\$0.37	\$118.71
Repairs		1	Head	\$0.96	\$0.96	\$307.20
Marketing		0.98	Head	\$14.60	\$14.31	\$4,578.56
Labor		1	Head	\$15.83	\$15.83	\$5,066.28
Interest on Credit Line				4.75%	\$20.64	\$6,603.77
Total Variable Costs					\$1,334.83	\$427,144.05
Planned Returns Above Variable Costs:					\$60.20	\$19,265.55
Breakeven Price to Cover Variable Costs				\$182.85 CWT		
<b>FIXED COSTS</b>		<b>Quantity</b>	<b>Units</b>	<b>\$/Unit</b>	<b>Total</b>	<b>Enterprise Total</b>
Depreciation		1	Head	\$15.50	\$15.50	\$4,960.91
Equipment Investment		\$429.69	Dollars	6.00%	\$25.78	\$8,250.00
Total Fixed Costs					\$41.28	\$13,210.91
Total Costs					\$1,376.11	\$440,354.96
Planned Returns to Management, Risk, and Profit:					\$18.92	\$6,054.64
Breakeven Price to Cover Total Costs				\$188.51 CWT		

Developed by Jason Johnson, associate professor and Extension economist, Texas A&M AgriLife Extension.  
**Information presented is prepared solely as a general guide and not intended to recognize or predict the costs and returns from any one operation. Brand names are mentioned only as examples and imply no endorsement.**