

## Data Mining Your Financial Records

### Are Your Farm Record Books Organized Towards Filing Taxes, or Providing Valuable Business Management Information?

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Let's face it, most livestock producers are in agriculture because they enjoy working with animals and being outside or in the barn, NOT because they like sitting behind a computer and tracking revenues & expenditures, analyzing trends, forecasting and making financial decisions. And yet, that is exactly where the profit is made or lost in agriculture!

During the BC Livestock and Farm Management workshops I have been using the phrase, ***"Production can generate revenue, but it takes management to retain enough revenue to create profit."*** This illustrates the importance of dedicating sufficient time to the financial management of your farm business.

With "tax time" just around the corner most producers have just completed, or are scrambling to complete, their books for 2025. As a result, it's a good time to determine if your bookkeeping system needs improvement and make any changes for 2026.

Every business operator in Canada is required to keep their financial records to file their GST and their Income Taxes. It is also necessary for agricultural producers who want to participate in safety net programs like AgriInvest and AgriStability. Unfortunately, most agricultural producers don't go beyond their taxation obligations, and they miss out on the vital information in those records that help make decisions that can create profits. The very foundation of effective farm business management is a good set of financial records (a.k.a. "books") that track production, inventories, revenues and expenditures in the detail needed (i.e. at the Enterprise level) and in a timely manner, to provide farmers and ranchers with solid data to make informed decisions.

#### Benchmarks - Comparing Your Business

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Early in my career with the BC Ministry of Agriculture I was fortunate enough to be involved in the data collection for the Beef Cow/Calf Farm Business Analysis (Beef FBA) Project with one of my mentors, Roger Keay. The Beef FBA he created was a predecessor to the 'Cost of Production' Benchmark Studies the BC Ministry of Agriculture conducts from time to time. During that five-year project we sat down with individual ranchers at their kitchen tables all across BC and went through their financial records. We categorized all their transactions using a standardized, accrual farm business management framework. An accrual methodology is needed to be able to attribute revenues and expenses to when they are generated or used, in order to properly analyze the profitability of a particular activity and compare between farms or from year to year.

During that project, I saw the full spectrum of farm record keeping systems; from the proverbial shoeboxes full of receipts, to elegant handwritten ledgers and customized agricultural accounting systems of the day (e.g. Canfarm

farm information management), to some of the early computerized accounting systems, and everything in between. The project ran from 1988-1993, so computers were relatively rare on farms in those days.

After collecting all the participants' data, benchmarks for the different regions were calculated from the aggregated data, and an individualized annual report was provided to each participant.

## Here are some of my personal observations/lessons learned from working on the Beef FBA project:

- 1. Have a good set of books:** It was a lot easier/less time consuming to obtain data from a good set of books. We were able to more easily pinpoint which transactions needed closer examination, rather than slogging through all the unsorted receipts in a shoe box. Even a calendar with pockets for receipts was a welcomed step up from the dreaded shoebox.
- 2. Hire the right person.** In most cases, the better books were kept by someone other than the main operator(s). Realistically, producers are pulled in many directions, and the books generally are "the last thing on their minds". Admittedly, there were a few rare individuals that were the bookkeeper as well as the main operator and managed to have immaculate books, but the better books tended to be kept by someone else. Often the books were kept by a spouse or an adult child of the main operator, but also on the roster were: professional bookkeepers/accountants, in-laws, and even grandchildren. The size/complexity of the operation and family dynamics were also significant considerations. The common threads were that the better books came from people who had taken courses in accounting or bookkeeping, and that they had developed habits of regularly keeping the books up to date (occasionally having to hound the main operator for receipts). The moral of the story is that unless you have an aptitude and passion for doing the books you should hire someone who has that aptitude and passion; however, you still need to determine the overall plan and be directly involved in setting up what is tracked (e.g. the "Chart of Accounts") so that it will provide the detailed information you are looking for.
- 3. Keep track of Inventory.** It is very helpful to record your Inventories of livestock {by class/category} and feed on hand on the same day at least once a year {on either the last day or first day of the calendar year, or fiscal year, depending on your business structure}. It gives you a solid number to verify against. Inventories are fluid and as the saying goes, "The palest ink is better than the best memory!"
- 4. Keep up to date.** GST was first introduced in 1991 (replacing the FST, which was a hidden tax), causing a lot of consternation and questions which slowed data collection in 1992. The GST still causes issues, but it does serve as an effective reminder/deadline for producers to update their books monthly or quarterly.
- 5. Use Accrual format to evaluate financial performance.** Cash accounting complicates the extraction of standardized management information from those records as year-end and inventory adjustments can get complicated or even over-looked/forgotten. Agriculture is one of the few industries where cash accounting is still allowed. It may be an effective tax filing strategy that you and your accountant choose to use. That is your choice but be prepared to spend extra time/expense to extract your management information in the

standardized accrual format to truly compare with industry benchmarks and Cost of Production studies. (and keep in mind point #7 below, you can still continue to ~~file~~ on a cash basis if you choose)

6. **Set up Account Categories.** After their first year and learning what information the Beef FBA provided, almost all participants asked about setting up the categories/accounts in their books to provide better business management information. This may have added a little more time categorizing expenses but led to significantly less time spent on data collection and analysis during the following years, and more time for producers to talk strategies and ask questions of the Farm Business Management Specialists while they were onsite collecting the data.
7. **Dual Purpose with the same or less effort and time.** The results of point #6 led to the realization that it is easier, faster and timelier to set up a farm's books to enter and track information in the standardized accounts used for farm business management/Cost of Production (COP) analysis, than it is to try to extract the management/COP data out of records set up solely for filing taxes. That way it is a simple matter of making adjustments at year end to optimize the data for your tax filing purposes, and you already have the management data you need.

Part of the reason is that extracting the business management/COP data from a taxation record keeping system requires additional information on the source of revenues, and reasons for expenditures, as well as decisions about how much of an expenditure category should be assigned to which enterprises. Things like how much fuel, tractor time, repairs & maintenance, etc. is used for making feed vs. how much is used to feed the cow herd over the winter, vs. how much is used for another enterprise like backgrounding or feedlot animals, OR vs. how much is spent on overhead like plowing driveways. Discussing assumptions or estimates often took significantly more time to sort out those numbers with producers than it did for them to quickly record actual tractor hours in a logbook when they were switching between uses for enterprises. While estimations are generally less accurate, they tend to be a necessary methodology to deal with the lack of objective data in most COP studies, and it takes extra time to make sure they are as close to accurate as possible.

## How can you ensure you get the data management you need?

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Setting up a chart of accounts to gather financial data and answer management questions must be tailored for each operation as it really depends on the combination and permutations of the enterprises in the farm business. As a result, there isn't one nice and simple universal chart of accounts that every livestock operation should use, but there is a strategy that can help identify which categories are relevant to your operation:

1. Use the revenue and expense categories that are listed in a Cost of Production (or Unit Cost of Production\*) program or template that you have seen or want to compare with as a base for your chart of accounts.
  - Participants of the recent Livestock Management Workshops will have some templates on the USB stick they received.

- The BC Cattlemen's Association and BC Ministry of Agriculture and Food recently completed and published a BC Beef Industry COP study which is available at [here](#).
- For those wanting to put the effort in and perhaps get more instruction/feedback you can also look into participating in the CanFax Canadian Cow-Calf Cost of Production Network.
- The Unit Cost of Production template assists in collecting the production numbers needed for relating the financial figures to the production information/changes.

## 2. Use "Enterprise Budget" templates to identify:

- Additional revenue and expense categories specific to that enterprise, and
- Common categories like fuel, machinery and repairs that may need to be subdivided into enterprise specific subcategories to attribute the costs appropriately.

Even a straight-forward forage-based livestock operation will generally have four enterprises to consider/track:

- The main herd/flock that produces the initial product (e.g. cow herd that are necessary to produce the calves for sale).
- The replacements needed to sustain the main herd/flock. (e.g. replacement lambs/heifers)
- The farm grown feed that is used:
  - For winter feeding (e.g. home-grown hay, or silage)
  - For grazing (with potential subcategories for owned, rented/leased, and crown grazing).

- ## 3. A quirk to remember is that Livestock can be both a product (e.g. calves being sold) and a capital input (e.g. purchasing breeding animals/bulls, or calves that are going into a feedlot enterprise) which results in some confusion as to how they should be entered into your financial records. The simple answer is to track them as their own revenue or expense categories based on whether they are adding revenue or increasing expenses, then the totals can be placed appropriately in the COP analysis. From a standardized COP/management perspective, breeding livestock purchases, as well as market related charges (marketing cost, brand inspection, transportation, etc.) are handled as "negative revenues" in the Revenue section rather than below in the Expenses so that a "Gross Profit" can be calculated.

# Livestock Drought Management Article Series

Here's a partial example to illustrate the concept:

## Example Accounts from COP and Enterprise Analysis Templates

### Accounts From Beef COP Template

	Notes
<b>REVENUE</b>	
Cow Calf	C/C
Feeder	Feeder
Crops	Forage or other crops
Other Income	Own Category or Misc.
Less: Bull Purchase	C/C
Other Lvtstk Purchase	Split By Ent.
Marketing & Trucking	Split By Ent.
<b>Gross Profit</b>	
<b>DIRECT EXPENSES</b>	
Seed	Forage or other crops
Fertilizer	Forage or other crops
Chemicals	Forage or other crops
Twine/Tarp	Forage
Crop & Price Insurance	Split By Ent.
Custom Work	Split By Ent.
Irrigation	Forage or other crops
Feed Supplmnts/Mineral & Salt	Split By Ent.
Land Rental (Crop & Hay)	Split By Ent.
Grazing Fees	Split By Ent.
Pasture Fees	Split By Ent.
Hay Purchases	Split By Ent.
Trucking-Hay & to Pasture	Split By Ent.
Livestock & Other Supplies	Split By Ent.
Vet & Medicine	Split By Ent.
Equip. Fuel & Lube	Split By Ent.
Equip. Repair	Split By Ent.
Other Livestock/Feed Purchases	Split By Ent.
<b>Total Direct Expenses</b>	
<b>CONTRIBUTION MARGIN</b>	
<b>INDIRECT EXPENSES</b>	
Building & Fence Repair	Split By Ent.
Land Taxes	Split By Ent.
Shop supplies/Small Tools	Split By Ent.
Hired Labour	Split By Ent.
Legal & Accounting	Split By Ent.
Insurance & Licences	Split By Ent.
Utilities	Split By Ent.
Misc. (Office/Fees/etc.)	Split By Ent.
Operating Interest	Split By Ent.
Term Loan Interest	Split By Ent.
<b>Total Indirect Expenses</b>	
<b>TOTAL EXPENSES</b>	
<b>NET RETURN OVER EXPENSES</b>	
<b>Adjustments</b>	
Depreciation (Bldg. & Equip.)	Split By Ent.
<b>NET FARM INCOME</b>	

### Accounts From Alberta AgriProfit\$ Crops Enterprise Analysis for Irrigated Alfalfa, Rearranged to highlight commonalities .

	Notes
<b>(A)</b>	
Crop Sales (Hay)	Split Actual Sales and Transfers to Feed at FMV
Crop Ins Receipts	
Misc Receipts	
Add'l Revenue from Aftermath Grazing	Internal value at FMV
<b>GROSS RETURN</b>	
<b>(B)</b>	
Seed & Seed Cleaning	
Fertilizer	
Chemicals	
Hail/Crop Ins & Program Premiums	
Custom Work & Specialized Labour	
Water rates & Licensing [Split from (C)2.]	
Irrigation Fuel & Electricity	
Cash/Share Rent & Land Lease [from (C)]	Portion attributable to Ent.
Trucking & Marketing (of hay)	
Fuel	Portion attributable to Ent.
Repairs - Machine	Portion attributable to Ent.
Unpaid Labour	Track & value operator labour
Repairs - Buildings [from (B)]	Portion attributable to Ent.
Taxes [Split from (C)2.]	Portion attributable to Ent.
Paid Labour & Benefits [from (B)]	Portion attributable to Ent.
Insurance [Split from (C)2.]	Portion attributable to Ent.
Utilities & Misc Expenses [from (B)]	Portion attributable to Ent.
Operating Interest Paid [from (B)]	Portion attributable to Ent.
Paid Capital Interest [from (C)]	Portion attributable to Ent.
Equipment & Bldgs a) Depreciation	Portion attributable to Ent.
Equipment & Bldgs b) Lease Payments	If Leasing

4. Once you have figured out what you want in (and from) your chart of accounts, keep in mind that you won't have to, and probably shouldn't, make wholesale changes every year as it will confound year-to-year comparisons. Going back into the books from previous years with the new framework can provide valuable information on trends but comes at a cost of time and resources. As the manager, you'll need to decide how far back is required, but it can certainly help identify areas for improvement in retaining revenues to create profit.

With the current phases in the political, economic and agricultural sector cycles, it is increasingly important to be ready to make financial decisions quickly. Relevant data from your books can help ensure you are as prepared as possible.

*Written by Jim Forbes, P.Ag, with input/insights from George Geldart, P.Ag., Greg Tegart, P.Ag., Mike Witt, P.Ag.*

## One-on-one support access

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Have any additional questions?

If you have questions and would like to follow-up with one of the authors for an individual appointment, please contact via one of the following to book a virtual appointment. When calling, please indicate whether you would like to talk about animal nutrition, forage management or economics/business decisions so that the administrator can best direct your request.

**Phone:** 250-573-3611

**Toll-free:** 1-877-688-2333

**Email:** [drought@cattlemen.bc.ca](mailto:drought@cattlemen.bc.ca)

(Please note: these contact options will connect you with the BC Cattlemen's Association; however, appointment options are available to all livestock producers across BC and are not limited to cattle.)

**Have any additional questions?** Contact AgriServiceBC

**Phone:** [1-888-221-7141](tel:1-888-221-7141)

**Email:** [AgriServiceBC@gov.bc.ca](mailto:AgriServiceBC@gov.bc.ca)

**Website:** [www.gov.bc.ca/agriservice](http://www.gov.bc.ca/agriservice)