
Purchase & Sale of Feeder Livestock & Other Resale Items

Some income may come from the sale of property only partially produced on your farm. An example is feeder cattle (or feeder pigs) that you buy, feed out and sell at a later date. IRS does not allow a deduction for the cost of the feeder livestock until the animals are actually sold. The sales of the purchased livestock is reported on Schedule F, line 1, "sales of livestock and other items bought for resale." The cost of the livestock sold is reported on line 2, "cost or other basis of items reported on line 1." The difference between the sales amount and the cost is reported on line 3. Special accounting is required to keep track of the cost of livestock purchased, especially if the cattle or hogs are purchased in one year and sold in another year.

As livestock are purchased, the cost is added to an asset account (resale inventory) that increases the amount in the resale account and reduces the amount in the checking account. At the time of sale, the resale account is reduced by the cost of the purchased livestock sold and that amount becomes a deductible expense.

Categories and Accounts Needed

To handle the sales and purchases, three categories and one account are needed. These are the same as shown in the Category & Transfer list of the FARM&HOME.QIF file in the **Categories and Classes** chapter. The following example is for feeder cattle.

[Resale Inv]

This is an asset account. When cattle are purchased the cost of the cattle are added to this asset account. When these cattle are sold, the cost is subtracted from this account.

LS Sold:PFfeeder

This is the income category to record the cash receipts for the purchased cattle sold. This is a tax-related category and the total amount is reported on line 1, Schedule F. The category name chosen should fit your situation.

Feeder LS:Cost

This is the expense category where the cost of the purchased cattle sold is recorded. This is a tax-related expense category. The amount in this category is reported on line 2, Schedule F. The category name should fit your situation best.

Marketing:Mkt LS

This is a tax-related expense category used to record marketing costs that are deducted from the gross sales amount.

Quantities and Cost

The number of animals purchased and their cost will need to be tracked in the asset account [Resale Inv]. If purchased animals are on hand at the end of the business year, the [Resale Inv] account will show the cost basis of the livestock for a balance sheet. If you buy and sell multiple groups of livestock during the year, you will need to establish a procedure to handle them such as FIFO (first in, first out) or LIFO (last in, first out) if you are not able to track each lot. If any of the purchased animals die, their cost can be deducted in the year they die.

Example

On 10/15/X4 you purchase 10 steers weighing an average of 500 pounds for \$75 per cwt. from XYZ Livestock. On 5/15/X5 you resell those 10 steers averaging 1200 pounds for \$65 per cwt. The entries would be made in the *FARM CHECKING* register as follows:

<u>Date</u>	<u>Num</u>	<u>Payee</u>	<u>Memo</u>	<u>Category</u>	<u>Amount</u>	<u>Balance</u>
			Opening Balance			13,860.00
10/15/X4	1001	XYZ Livestock	10 hd, 5000 lbs, \$75	[Resale Inv]	-3,750.00	10,110.00
5/15/X5	DEP	XYZ Livestock	10 hd. Sold	--SPLIT--	7,660.00	17,770.00

Split Screen Detail

<u>Category</u>	<u>Memo</u>	<u>Amount</u>
1. LS Sold:PFeeder	10 hd., 12000 lbs, \$65	7,800.00
2. Feeder LS:Cost		-3,750.00
3. [Resale Inv]		3,750.00
4. Marketing:Mkt LS	sale deductions	-140.00

The above entries in the *FARM CHECKING* register would result in the following entries in the *RESALE INV* register:

<u>Date</u>	<u>Ref</u>	<u>Payee</u>	<u>Memo</u>	<u>Category</u>	<u>Amount</u>	<u>Balance</u>
			Opening Balance			0.00
10/15/X4		XYZ Livestock	10 hd, 5000 lbs, \$75	[Farm]	3,750.00	3750.00
05/15/X5		XYZ Livestock	10 hd. sold	[Farm]	-3,750.00	0.00

The purchase price of \$3750 reduces the checking account balance by that amount and adds it to the [Resale Inv] asset account. When the cattle are sold in May of the following year, the \$7660 is deposited in the farm checking account. To create the deductible expense, the [Resale Inv] account is reduced by \$3750 and the expense category, Purch Feeder LS, is increased by \$3750. This has no effect on the checking account, but establishes the cost basis for the cattle for tax and P&L statement purposes. Since there are purchased cattle on hand at the end of 20X4, the cost basis of the purchased cattle for balance sheet purposes is \$3750, the amount in the [Resale Inv] account.

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