

Teaching Dairymen to Use "QuickBooks" For Accurate Financial Analysis

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My interest in the area of financial analysis has been growing for a number of years. Perhaps I can trace this interest back to my days on a poor hill farm in the Finger Lakes Region of New York. My goals at that time centered on becoming a successful dairyman. I was the "bookkeeper" in the partnership and, with the help of my CPA father, I took care of the books, taxes, etc.

Because of my background, I have always used a production management since entering veterinary practice. Records analysis, programmed preventive medicine, facilities management, and nutrition just always seemed like natural extensions of a concerned, total approach to herd health--what we now call "Production Medicine." Financial Analysis as part of a Production Medicine program, however, never quite seemed so obvious. The familiar quote, "Veterinarians aren't trained in that area and have no business getting involved," used so often to degrade efforts in nutrition or milking equipment evaluation, would immediately come to mind. However, I was also aware of various instances in which veterinarian input on new heifer facilities or milking equipment changes, as well-meaning and technically sound as they were, had been responsible for severe cash flow problems in the dairies that had followed the advice. In fact, I was aware of one bankruptcy that had occurred, at least in part, because of well-intentioned recommendations of a veterinarian. Because dairy production medicine is *predicated on maximizing return on investment* (unlike companion animal medicine which is predicated on maximizing individual animal health often without regard to cost), clearly some attention to financial impact had to be factored into any "management therapy" in order to maximize the "profitability" of the intervention.

Although the need for Financial Analysis began to make more sense, my interest didn't go much farther until the first Northeast Dairy Production Management Symposium two years ago in Ithaca. During that meeting, Dr. John Ferry first presented the Financial Analysis program that he was providing to his clients. I was fascinated and, indeed, impressed with the depth and breadth of effort that John was putting into this service. I was interested in pursuing this a bit further so I enrolled in the first Dairy Herd Health Economics Seminar that was given at the AABP meeting in Minneapo-

lis. Then, at last year's NEDPM Symposium in Syracuse, John presented a four hour follow-up lecture on his Financial Analysis service. By this point, John had a very sophisticated Lotus spreadsheet that he was using for his quarterly analysis. It struck me, however, that the numbers he was plugging into the spreadsheet were often little more than "guesstimates." On some farms, he was spending inordinate amounts of time sifting through Agrifax records and checkbooks in order to try to develop financial data that would provide accurate inputs on which to base recommendations. For example, most accountants look at fertilizer as a cropping expense pure and simple. By extension, only those who utilize enterprise analysis would consider the fertilizer's cost as having any impact on the cow herd ... and that would only be in the increased cost of crop production that must be sold to the herd for feed. Dr. Ferry, on the other hand, considered the fertilizer cost to be every bit as much of a feed expense as if the dairyman had gone out and purchased a load of cottonseed. The dollar outputs were evaluated equally, whether they went towards "purchasing" or "making" the feed. This all made a lot of sense, but, from a practical perspective, it seemed to me that creating this financial data from the current on-farm sources was far too time-consuming and inexact.

After the meeting, I shared my interest (and concerns) with John. He agreed with the issues I was raising but wondered what the alternatives might be. Glibly, I responded that something like QuickBooks® from Intuit would be perfect. The program is very straightforward and flexible; it allows for all types of user-defined options and is simple enough that any dairy person can be trained quickly on how to use it. John could define his Chart of Accounts in such a way that he would be able to download the numbers directly into his Lotus spreadsheet. Finally, QuickBooks® provides a true double entry, accrual accounting system in a virtually invisible manner. It's as easy as typing checks into a computer register. "Fine ... just what I need", said John. "Why don't you help me get my clients started!" Gulp!!!! ("I really got myself into it this time.")

By summer, we were ready to begin "beta testing." We started with a dairyman's wife who barely knew how to turn the computer on. We started slowly ... just using the computerized checking functions and gradually pro-

gressed through the use of Accounts Payable, Vendor lists, and Balance Sheet Accounts. The use of Accounts Payable (and Accounts Receivable where applicable) provided the ability to analyze the business as if it were running on an accrual accounting system (expenses are incurred and income is generated at the point that the purchase is made or goods are sold ... regardless of how much later they are paid for by the dairyman/woman or by the buyer of goods). Repetitive checks (such as those that are due at the beginning and 15th of each month) were grouped together in Transaction Groups and programmed to be run as a batch 3 to 5 days prior to their due date each month. After printing, the dairyman/woman would simply tear off the checks, sign them, and put them into a windowed envelope. The time savings was tremendous!!

It soon became obvious that a relatively standardized chart of Income and Expense Accounts had to be developed for all of John's clients. Standardized Reports were generated from which John could do his analysis. An example of a Profit/Loss Statement that we use to compare the most recent quarter with the previous quarter (and the comparable quarter during the previous year) is shown on the next page. We also had to teach a bit of accounting theory to the dairymen/women beginning with the fundamental "Accounting Equation:"

$$\text{Assets} = \text{Liabilities} + \text{Equities} + \text{Revenues} - \text{Expenses}$$

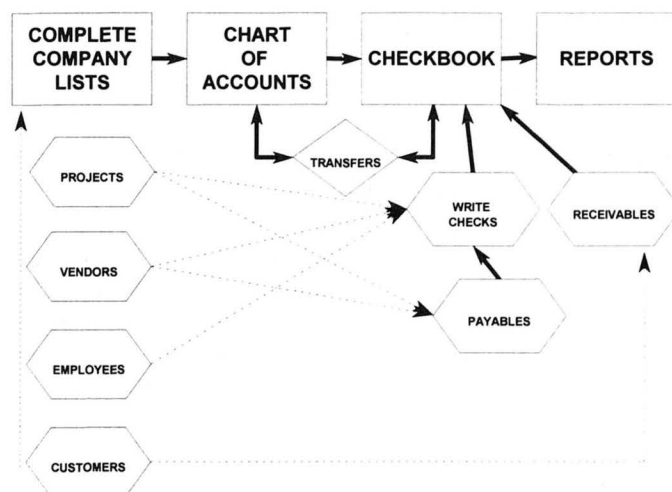
Since everyone wants to know their "bottom line" equity, we use some basic algebra to manipulate the equation:

$$\text{Equities} = \text{Assets} - \text{Liabilities} - \text{Revenues} + \text{Expenses}$$

QuickBooks® allows us to easily generate a balance sheet anytime we want as long as we have taken the time to set up complete Asset and Liability accounts in each dairy.

We have now refined our approach to teaching QuickBooks® and utilize the flow diagram that follows. We make sure that all "Company Lists" (Projects, Vendors, Employees, Customers) are completely filled out. Then we load a pre-set Chart of Accounts and enter all Current and Long Term Assets as well as all Current and Long Term Liabilities. We then teach the use of Check Writing and Accounts Payable (and how to transfer funds between accounts). Accounts Receivable is taught if there is a corollary business that requires billing of customers. Finally, some basic reports are generated. A system for report generation is employed that very easily allows for individual dairy customization without sacrificing the core ability to compare across multiple dairies. For example, if a given dairy wants to

keep track of all of its expenses for a new milking parlor, an individual "Project" can be set up which otherwise uses all of the rest of the standard Chart of Accounts. At the time a report is generated, it can be customized to include just those transactions in the particular "Project" being evaluated. Further, if the dairyman/woman has other allied (but non-farm) businesses that are being run through the books (such as the sale of seed or baler twine), these businesses can be assigned "Project" names and evaluated accordingly.



It has been a lot of fun working with John and his clients in setting up QuickBooks®. The dairymen/women have been very enthusiastic and, to the dairy, all testify that they don't know how they ever got along without QuickBooks® before. Some are just starting to incorporate the add-on program QuickPay® in order to automate their payroll. This is handy in that all taxes are automatically calculated and a running total of payments due the Federal and State governments are kept. A reminder date is programmed into the account so that the dairyman/woman is reminded when the payments are due.

John has become such an ardent supporter that he has started using QuickBooks® for his own business. He prepares and prints statements using the program and a running tally of his Accounts Receivable is kept. All invoices are entered into Accounts Payable and all checks are automatically printed via computer. I am sure that John would say that "if he can do it, anyone can do it." We now believe that we have a good system in place in order to teach dairymen/women how to keep their books (and allow the financial consultant to easily analyze those books). While we have used the dairy business as the paradigm, this accounting system could also be easily modified for cow-calf or feedlot businesses.