STOCKCO FINISHING FINANCE – ACCOUNTANTS FAQ's

Who owns the livestock? StockCo purchases the livestock on the farmer's behalf, or from the farmer, through settlement of an invoice and therefore StockCo owns the livestock. The livestock is then bailed to the farmer for them to farm. StockCo receives a fixed return based on the financing agreement in place with the farmer and all surpluses from the sale of the stock belong to the farmer.

How do I account for the livestock and is there a loan to account for? As StockCo owns the livestock it is not recorded in the farmer's balance sheet of their accounts. Similarly there is no livestock loan to account for. This means that there is no need to account for the value of livestock or any changes to those values in the farmer's accounts or tax returns and therefore simplifying the accounting and tax. There is also no interest charge to account for or accrue during the term of the financing in the accounts of the farmer.

How do I account for the income and finance costs? When the livestock is sold or slaughtered StockCo receives the proceeds directly. StockCo then deducts the purchase price of the livestock and any finance costs. The balance is paid out as a margin to the farmer and ordinarily at this point it would be recorded as income to the farmer. Farmer's do not ordinarily accrue the grazing income into their accounts during the term of the finance as the amount of income they will receive and when is not known.

Why does it appear there is GST on the finance charge? As StockCo owns the livestock which is bailed to the farmer, the amount due to the farmer is essentially a grazing payment. The finance charge (sometimes referred to as interest or an interest rate for understandability or comparability) is simply part of the method of calculating the grazing payment to the farmer as a deduction from the net proceeds on the sale of the livestock. E.g. Sale price – purchase price – finance charge = grazing payment due to the farmer. The calculation is done exclusive of GST and then if the farmer is GST registered GST is added to the payment. The net result for the farmer is no different to an ordinary loan with a comparable interest rate.

What reporting will the farmer get? In addition to the reporting provided to the farmer for each transaction (each purchase and sale of livestock) StockCo has available a number of period transaction and balance reports that are able to assist with the compilation of year end accounts and analysis of performances.

What if some of the livestock dies? The responsibility for deaths is that of the farmer, the same as if they had taken a normal loan to purchase the livestock. StockCo will simply account for deaths when calculating the payment of the farmer's net margin (i.e. reduce the "grazing payment" for the deaths).

What if the livestock is not ready for sale or slaughter in the agreed term? We appreciate that farming livestock is not a lineal process and that sometimes stock may take longer to grow to their target weights. It is often beneficial for farmer's to hold their livestock for a longer period in order to maximise their returns and so the lending term can be extended to cater for this as per the terms of the financing arrangement.

Is the finance cost charged on the GST inclusive amount of the invoice? No. Although StockCo settles the full invoice including any GST, finance costs are only charged on the GST exclusive amount.