StockCo Livestock Facilities: Information for Accountants

StockCo's livestock facilities provide funding for cattle and sheep for pasture and feedlot-based livestock production activities. StockCo provides our customers with a livestock facility and associated credit limit. The producer is then able to source tranches of livestock within the approved limit. The typical transaction process is for StockCo to settle the invoice for the purchase of each tranche of livestock and subsequently receive the funds directly from the sale of any livestock. From the sale proceeds StockCo deducts the purchase price and finance costs / fees and credits the margin to our customer. The finance rate and fees that StockCo charge are a mechanism to calculate StockCo's share of the proceeds, with the balance paid out as a margin to the producer.

This document provides customers and their accountants with information which may assist them in understanding and managing the accounting and GST elements of their transactions with StockCo. We are not in the business of providing accounting or tax advice and this document is not intended to be taken as advice.

1 Purchasing Livestock

1.1 Third Party Purchases

StockCo purchases the livestock on the producer's behalf through settlement of an invoice and therefore StockCo owns the livestock. The livestock is then bailed to the producer for them to manage.

An agency relationship is established between StockCo and the producer (via the Master Livestock Agreement ("MLA")), enabling StockCo to settle livestock invoices made out to the producer "as agent for StockCo" (StockCo will also account for the GST).

Accounting Treatment:
As StockCo owns the livestock it is not recorded in the producer's accounts as an asset. 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 producer's accounts or tax returns which simplifies the accounting and tax.

There is also no interest charge to account for or accrue during the term of the facility in the accounts of the producer as there is no loan.

GST Treatment:
StockCo has purchased the livestock and therefore accounts for the GST. The producer does not have any GST to account for when StockCo purchases the livestock.

1.2 Cash flow facility against livestock already on farm

StockCo may purchase livestock directly from the producer. This type of transaction with StockCo is referred to as a "Cash Flow" transaction. StockCo takes ownership of the livestock but the livestock remains on the producer's farm.

The sale of livestock to StockCo is a leviable transaction and therefore StockCo is required to deduct the levy[1] from the proceeds payable to the producer and pass this on to the Department of Agriculture, Forestry and Fisheries (DAFF) (unless the producer has an LRS number in which case this responsibility falls to the producer).

For example, if the producer sold 10 cattle to StockCo at $1,000 per head, StockCo would deduct $50 in levies from the proceeds paid to the producer, meaning the producer would receive $10,950, comprising: $10,000 sale proceeds, plus $1,000 GST, less $50 levies.

StockCo produce a Recipient Created Tax Invoice (RCTI) for the purchase of the livestock from the producer which details the purchase price, GST and any levies deducted, arriving at the amount that the producer will receive into their bank account.

Accounting Treatment:
Prior to the sale of the livestock to StockCo, the producer would have a livestock asset recorded in their accounts– the producer would ordinarily account for the Cash Flow transaction the same way as they would any sale of livestock.

Consistent with a third-party purchase, the producer does not account for a livestock loan and there is no need to account for the value of livestock (once sold) or any changes to those values in the producer's accounts or tax returns. There is also no interest charge to account for or accrue during the term of the facility in the accounts of the producer as there is no loan.

GST Treatment:
Given the producer has sold livestock, there will be GST to account for on the sale. This will be detailed in the RCTI provided by StockCo.

1.3 Additional Advances

StockCo may advance additional funds to a producer. This type of transaction with StockCo is referred to as an "Additional Advance" and is typically for feed, transport costs etc.

An Additional Advance can take two forms –

a) StockCo settles a third-party feed/transport invoice; or
b) StockCo makes payment direct to the producer.

[1] The current levy rates are: $5/hd for cattle, 2% of the sale price for lambs capped at $1.50/hd, 2% of the sale price for ewes capped at $0.20/hd

Additional Advance (a)
These types of Additional Advances should be treated the same as a third-party purchase (i.e. the producer purchases the feed/arranges the transport as StockCo's agent. Refer to section 1.1 for further details on the accounting and GST treatments.

Additional Advance (b)
Payment made directly to the producer triggers a supply for GST purposes as the Additional Advance is treated as either payment for feed/transport, etc or payment for grazing services provided by the producer to StockCo. StockCo produce an RCTI which details the price for the feed / services provided and the GST component, arriving at the amount that the producer will receive into their bank account.

Accounting Treatment:
The producer will need to account for the cash received from StockCo. This could either be recognised directly in profit and loss as revenue (and offset with any deductible expenses incurred in earning this revenue) or could be recorded in their accounts as revenue received in advance (depending on the particular circumstances of the producer).

GST Treatment:
Given the producer has provided grazing services, there will be GST to account for which will be detailed in the RCTI provided by StockCo.

2 Selling / Repaying Livestock

2.1 Third Party Sales

When the livestock is sold or slaughtered, StockCo receives the proceeds from the purchaser directly (e.g. directly from the agent or the processor). StockCo then deducts the purchase price of the livestock, any additional advances and any finance costs that relate to the livestock that was sold, and the balance is paid out to the producer. As StockCo owns the livestock which is bailed to the producer, the balance paid out to the producer is essentially a grazing payment.

StockCo produce an RCTI for the payment of the margin which details the net amount paid for grazing plus GST, arriving at the amount that the producer will receive into their bank account.

Accounting Treatment:
Producer's do not ordinarily accrue the grazing income into their accounts during the term of the facility as the amount of income they will receive and when is not known. The producer would typically recognise the grazing margin as income when received from StockCo.

GST Treatment:
The producer will need to account for the GST on the grazing margin received, as detailed in the RCTI.

Sale price **less** purchase price **less** additional advances **less** finance charge = grazing payment

The calculation is conducted exclusive of GST and then GST is added to the grazing payment such that GST is only applied to the net amount payable to the producer.

2.2 Cash Repayments

A producer may reduce their outstanding balance with StockCo by making a cash repayment (as opposed to through a sale of livestock). There are two ways that StockCo can process a cash repayment – by default the cash repayment will be processed as an Early Payment (option (a) below) however the producer may choose to purchase back the livestock (option (b) below) instead.

a) Cash payment treated as an Early Payment

The cash payment is treated as an Early Payment (as defined in the MLA) and pays the amount due to StockCo on a certain number of head under the facility (the repaid head are referred to as "released" stock) – the repayment is applied to the producer's StockCo account to reduce the outstanding balance. StockCo retains title of the livestock but provides the producer with the authority to sell the released stock and retain the proceeds of the sale for their own benefit.

Because StockCo record purchase costs against individual tranches of livestock (and not a single loan balance secured by livestock), there are amounts outstanding against each individual animal and therefore cash payments need to be applied to the balance outstanding on designated livestock. A payment cannot be apportioned over all livestock.

Accounting Treatment:
The producer will need to account for the cash paid to StockCo. This would ordinarily create an asset in the balance sheet, recognised as a "value in livestock" or "prepaid livestock". When the producer sells the released stock, they may retain all proceeds from the sale and would ordinarily reverse out the value in / prepaid livestock, recognising the difference between the sales price and the value in / prepaid livestock amount as revenue in the P&L.

GST Treatment:
The producer may sell the released stock and retain all sales proceeds. The sale of the released stock should be treated the same as any other sale made by the producer for GST purposes, with the producer responsible for remitting the GST received on sale of the released stock.

b) Producer purchases livestock from StockCo

The producer advises StockCo that they wish to purchase a certain number of head from StockCo. The sale of livestock to the producer triggers a transfer of title and therefore is a leviable transaction and levies will be added to the purchase price payable by the producer. Once the producer has advised StockCo of the number of head they wish to purchase, StockCo will calculate the levy payable and add this to the purchase price of the livestock, issuing an invoice to the producer for the livestock. A worked example is included below –

Description	$/Head		Total (exc GST)
Repay principal on 10 Beef Heifer	$1,000		$10,000
Finance Costs	$65		$650
			$10,650
		GST	$1,065
			$11,715
MLA Levies	$5		$50
		Total Due	**$11,765**

Accounting Treatment:
The producer has purchased livestock so would account for this transaction as they would any purchase of livestock.

GST Treatment:
The producer has purchased livestock from StockCo and can claim the GST credits as per the tax invoice provided by StockCo.

3 Other FAQ's

What reporting will the producer receive?
In addition to the reporting provided to the producer 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 performance.

What if some of the livestock dies?
The responsibility for deaths is that of the producer, 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 producer'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 or opportunities change. It is often beneficial for producers to hold their livestock for a longer period in order to maximise their returns. In these instances, the producer can communicate their extension request to StockCo who will review the request and, if approved, will extend the anticipated sale date in the system. Please note that this statement should not be construed as a representation that StockCo will approve any extension request. StockCo is under no obligation to approve an extension and unless it exercises its discretion to do so the livestock must be delivered for sale or slaughter on or before the originally agreed delivery date.

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.