StockCo Finishing Finance: Information for Accountants

StockCo's livestock finance facilities provide funding for cattle and sheep for pasture and feedlot-based trading activities. StockCo will provide a farmer with a trading account and set a credit limit and the farmer can then source tranches of livestock within this dollar value 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 the farmer. 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 grazing margin to the farmer.

This document provides farmers 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 farmer's behalf through settlement of an invoice and therefore StockCo owns the livestock. The livestock is then bailed to the farmer for them to farm.

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

Accounting Treatment:

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 which simplifies 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 as there is no loan.

GST Treatment:

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

1.2 Cashflows (Funding of stock already on farm)

StockCo may purchase livestock directly from the farmer. This type of transaction with StockCo is referred to as a “Cashflow” transaction. StockCo takes ownership of the livestock but the livestock remains on the farmer’s farm.
StockCo produce a Buyer Created Tax Invoice (BCTI) for the purchase of the livestock from the farmer which details the purchase price and GST, arriving at the amount that the farmer will receive into their bank account.

Accounting Treatment:

Prior to the sale of the livestock to StockCo, the farmer would have a livestock asset on their balance sheet – the farmer would ordinarily account for the Cashflow the same way as they would any sale of livestock.

Consistent with a third-party purchase, the farmer 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 farmer’s accounts or tax returns. There is also no interest charge to account for or accrue during the term of the financing in the accounts of the farmer as there is no loan.

GST Treatment:

Given the farmer has sold livestock, there will be GST to account for on the sale. This will be detailed in the BCTI provided by StockCo.

1.3 Additional Advances

StockCo may advance additional funds to a farmer against livestock already financed/owned by StockCo. 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 farmer.

<u>Additional Advance (a)</u>
These types of Additional Advances should be treated the same as a third-party purchase. Refer to section 1.1 for further details on the accounting and GST treatments.

<u>Additional Advance (b)</u>
Payment made directly to the farmer 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 farmer to StockCo. StockCo produce a BCTI which details the price for the feed / services provided and the GST component, arriving at the amount that the farmer will receive into their bank account.

Accounting Treatment:

The farmer 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 the balance sheet as revenue received in advance (depending on the particular circumstances of the farmer).

If the Additional Advance is initially recognised in the balance sheet, this will need to be reversed when StockCo sell the livestock on which the additional advance has been made. Ordinarily, the Additional Advance would be reversed out of the balance sheet and recognised as revenue, together with any grazing margin received from StockCo on sale of the relevant livestock.

GST Treatment:

Given the farmer has provided grazing services, there will be GST to account for which will be detailed in the BCTI provided by StockCo.

2 Selling / Repaying Livestock

2.1 Third Party Sales

When the livestock is sold or slaughtered, StockCo typically receives the proceeds from the purchaser directly (e.g., directly from the agent or the processor). StockCo then deducts the original 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 farmer. As StockCo owns the livestock which is bailed to the farmer, the balance paid out to the farmer is essentially a grazing payment.

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

Accounting Treatment

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. The farmer would typically recognise the grazing margin as income when received from StockCo.

GST Treatment

The farmer will need to account for the GST on the grazing margin received, as detailed in the BCTI.

While it may appear that there is GST on the finance charge, the finance rate (sometimes referred to as interest or an interest rate for understandability or comparability) is simply part of the method of calculating the grazing payment due to the farmer. The finance charge, together with the purchase price of the livestock and any additional advances, is deducted from the net sales proceeds received by StockCo:

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

The calculation is done exclusive of GST and then GST is added to the grazing payment.

2.2 Cash Repayments

Where a farmer wishes to reduce their outstanding balance with StockCo by making a cash repayment (as opposed to through a sale of livestock), they can do this by purchasing livestock back from StockCo.

The sale price of the livestock is calculated with reference to the original purchase price plus any finance costs. A worked example is included below –

Description	$ / Head (excl GST)	Total
Repay principal on 10 Beef Heifer	$1,000	$10,000.00
Finance Costs	$65	$650.00
		$10,650.00
	GST	$1,597.50
		$12,247.50

While it may appear that there is GST on the finance charge, the finance rate (sometimes referred to as interest or an interest rate for understandability or comparability) is simply part of the method of calculating the sale price of the livestock. The finance charge, together with the original purchase price of the livestock and any additional advances, is combined to arrive at the sale price for the livestock being repaid using cash:

Original purchase price *plus* finance charge *plus* additional advances = sale price

Accounting Treatment

The farmer has purchased livestock so would account for this transaction as they would any purchase of livestock.

GST Treatment

The farmer 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 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 or opportunities change. It is often beneficial for farmers 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. In these instances, the farmer can communicate their extension request to StockCo who will review the request and if approved will extend the anticipated kill date in the system.

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.