December 1993

Cost Control Using Economic Analysis and Spa

Paul H. Gutierrez
Colorado State University

Proceedings, The Range Beef Cow Symposium XIII
December 6, 7, & 8, 1993, Cheyenne, WY

Cost Control Using Economic Analysis and Spa

Paul H. Gutierrez
Department of Agricultural and Resource Economics
Colorado State University

INTRODUCTION

The primary activities of management include planning, organizing, directing and control. The most important and most challenging is control–the process of analyzing, evaluating and interpreting the production and financial performance of the business, so the business manager can make informed business management decision. After almost two years of working with beef cattle business managers and gaining an understanding of the recommendations of the Farm Financial Standards Task Force (FFSTF) and the National Cattlemen's Association-Integrated Resource Management-Standardized Performance Analysis (NCA-IRM-SPA) subcommittee guidelines, has made a believer out of me now. Why? A complete accounting analysis, such as that provided by following the SPA analysis process, enhances the manager's control of the business.

So why isn't everyone "doing" SPA? (Thought you would never ask) I believe it's because many think of a SPA analysis as an "event" rather than a process. Where in-fact, a SPA analysis is very much a process, a management process. And like most management process in your business it may take some time and commitment to make the SPA process an important part of your business analysis activities. Is it worth the time and commitment? If your asking me, most definitely. However, I am biased. You might be better off to ask yourself if you are satisfied with the production and financial performance of your cow/calf enterprise; What is the reproduction and production efficiency of my cow herd? What are the major expenses in the enterprise and can I do a better job controlling them? What is my unit cost of production for a pound of weaned calf? Is the financial position of the enterprise in balance with its cash flows? Is the enterprise meeting my profit goals and objectives?

FOR THE RECORD, WHAT IS SPA?

Now that I have rambled on about the importance of SPA in the management process, I will explain to those of you who are not familiar with SPA, what exactly it is. SPA is a standardized cow-calf enterprise production and financial performance analysis process. The initial SPA effort, headed by the NCA National IRM Coordinating Committee and Cow-Calf Financial Analysis Subcommittee, developed a set of SPA guidelines (definitions, interpretation, and limitations) of recommended production and financial performance measures. The successful intent was to provide cow-calf producers with a standardized means of measuring production and financial performance of the business. The NCA-IRM-SPA guidelines includes performance measures for reproduction, production, grazing and raised feed, marketing, and financial and economic performance.

THE SPA PROCESS FOR CONTROLLING COST

Looking back, developing the SPA guidelines was the easy part. Once the guidelines of performance measures were identified, then the analytical process to generate the performance measures from individual producers data had to be developed and implemented. And thanks to the efforts of Dr. James McGrann and others at Texas A&M University, prototype software and supporting worksheets have been developed to facilitate the SPA analysis process. And its been a real learning process for all involved.

SPA can best be described as an information summary tool that helps beef cattle business process production and financial data collected throughout the year into performance measures calculated according to a standardized format that helps in identifying profitable opportunities for change. Overall ranch performance is documented by total farm or ranch financial statements (utilizing FFSTF) and by integrated cow-calf production and financial performance measures completed as a part of SPA.

Once the SPA analysis is complete, the SPA process continues with evaluation and interpretation of summary information. Decisions on which changes are appropriate and how they should be implemented must be based on accurate information and meaningful analysis to positively affect profits. Increased profitability usually results from informed decisions.

Implementation focuses on carrying out decisions once they have been made. Emphasis must be placed on finding alternatives which reduce costs and/or increase revenue. This does not mean that all cost must be cut. However, if costs are increased, revenue must be increased, and decisions without implementation do not change profits.

Experiences with completing Cow-Calf SPA with producers in Texas and Colorado has shown some specific ways to control costs. These are summarized:

- Know your costs of production and update cost calculations in a timely manner.
- Express costs on a per breeding cow and per cwt of calf weaned basis so the values serve as reference points--i.e. turn financial cost data into meaningful management decision information.
- Anticipate in advance what costs should be -- plan for cost control.
- Manage cost by exception -- identify either extraordinarily large or small cost items for cost control or expenditure opportunities.
- Clearly identify which costs can be managed.
- Insure that meaningful decision and performance evaluation information gets back to those who generate data.
- Budget for a profit on the basis of complete cost of production including indirect costs.
- Market for a profit not just for breakeven.
- Invest in profitable assets and technologies and eliminate assets that do not provide for profitable returns.

Data collection through analysis and implementation is an on-going business process. Monitoring and feedback are essential for implementation and control. Measuring performance will lead to managing for performance. Effective managers using the SPA analysis process to make informed decisions will find ways to increase their profits.

The SPA effort has come a long way, in-fact there is effort currently under way to develop a Stocker/Feeder and Seedstock SPA guidelines. And like the Cow/calf guidelines, the big challenge will be developing and implementing a analysis process. This is critical because personal experience with cow/calf business managers and SPA clearly demonstrates that it's the process of getting at the performance measures that provides management with the most benefit, not necessarily the performance measures themselves. This is because the process makes you take a hard look at production and financial information in a format that challenges you to think about your management activities through a production and financial reporting year. The process of data collection and analysis becomes the basis for implementation of decisions for change.

The single biggest challenge for cow/calf business managers in this SPA process (at least on the financial side of analysis) is reading and understanding the "cross-over effects" between financial statements (e.g. Income Statement, Balance Sheet and Statement of Cash Flows). This is critical because the SPA process utilizes the financial statement formats, terminology, and performance measures recommended by the FFSTF.

Unfortunately, the format of whole farm/ranch financial statement do not "pave the way" for cow/calf enterprise profit (revenue and expenses), financial position and cash flow analyses. Conventional financial statements are not ready made for these purposes, at least not for the untrained reader. The SPA financial analysis process provides a format for cow/calf enterprise profit, financial position and cash flow analysis, but like financial statements, are presented on the assumption that the reader understands the interrelationships and linkages between the statements and that the reader will make the appropriate connections and comparisons.

What I would like to do with the time (and space) left, is address some of the fundamentals of financial statements and SPA financial analysis.

MISSION CONTROL

The Threefold Task of Managers: Profit, Financial Position, and Cash Flows

The Income Statement reports the profit performance of the business. The ability of managers to produce and market livestock and to control expenses, and thereby earn profit, is measured in the Income Statement. Clearly, earning a adequate profit is the key for survival and the beef cattle manager's most important imperative. But the bottom line is not the end of the manager's task.

Managers must also control the ***financial position*** of the business. This means keeping the assets and liabilities within proper limits and proportions relative to each other and relative to the sales and expense levels of the enterprise. And, managers must ***prevent cash shortages*** that

would cause the business to default on its liabilities or to miss its payroll.

The business manager really has a ***threefold task****:* earning profit, controlling the financial position, and preventing "cashouts." Profit performance alone does not guarantee survival. In other words, you can't manage profit without also managing the changes in financial position caused by the sales and expenses that produce your profit. Furthermore, the profit-making activity may actually put a temporary drain on cash rather than provide cash inflow.

The cow\calf enterprise business manager should use the Income Statement to evaluate profit performance, and to ask a whole raft of profit-oriented questions. Did livestock sales revenue meet the goals and objectives for the period? Why did sales revenue increase compared to last period? Which expenses increased more or less than they should have? And so on. These profit management questions are absolutely essential. The SPA analysis process provides a comprehensive format for evaluating the profit performance of the cow/calf enterprise. In fact, many would argue it's too comprehensive, but you will know and understand your cost of production when you are done.

Beyond the profit analysis, the business manager has to move on to ***financial position*** analysis and ***cash*** *flow* analysis. In large business organizations, responsibility for financial position and cash flow usually is separated from profit responsibility. The vice-president of finance is responsible for financial position and cash flow; other organization units are responsible for sales and costs. In these large companies the chief executive and the board of directors must oversee and approve the decisions of the financial vice-president. But most of the details can be and usually are delegated to the financial vice president of the corporation.

In the beef cattle business, however, the top-level manager or the owner/manager, YOU, is directly and totally responsible for financial position and cash flow. There's no one else to delegate these responsibilities to. The good news, because the SPA analysis encourages the completion of whole farm/ranch financial statements, this management benefit is an outcome of the SPA process as well.

Importance of Cash Flows: A Cash Flow Summary for the Cow/calf Enterprise

Beef producers, lenders, and investors are, quite rightly, very concerned with cash flows. Cash inflows and outflows are the heartbeat of any business. So let's start here. For our example we'll use a "medium-size" cow/calf operation (249 cows, Jan. 1) that just completed a year of operation. We will also assume this is a spring calving operation with two-year-old first-calf heifers.

A summary of cash receipts and cash disbursements for the calendar year of business is given in Table 1. Table 1 shows three sources of cash receipts and six uses (disbursements) of cash during the year. Each source and use should be fairly familiar, so the following description of the business activities is very brief:

- The business received cash from the sale of calves and cull cows and bulls. Also,

the business borrowed money on interest-bearing notes and invested owner capital into the business.

- The business did not pay out money for the purchase of livestock, but did pay out money for operating expenses and interest. No income tax expenses were incurred. The business bought and paid for capital assets.

Table 1. SUMMARY OF CASH RECEIPTS AND DISBURSEMENTS DURING THE YEAR

CASH RECEIPTS	TOTAL	PER COW[1]
From sale of calves and cull cows and bulls	$ 94,787	$380.67
From owner invested capital	10,000	40.16
From borrowing on interest-bearing notes payable	12,000	48.19
Total cash receipts during year	$116,787	$469.02
CASH DISBURSEMENTS		
For purchases of livestock that were sold or are being held for sale	$ 0	$ 0
For many different cash expenses of operating the business	62,982	252.94
For interest on notes payable	17,554	70.50
For income tax based on taxable income of year	0	0
For capital assets (land, building, machinery, equipment, and breeding livestock), which will last several years	15,000	60.24
For family living withdrawals	14,400	57.83
Total cash disbursements during year	$109,936	$441.51
Increase in cash during year, which is balance of Cash at end of year	$ 6,851	$ 27.51

[1] Assumes a January 1 inventory of 249 cows. This inventory figure is consistent with the NCA-IRM-SPA Guidelines.

What Does the Summary of Cash Flows NOT Tell You?

What does Table 1 tell you? One thing it tells you is that cash, that all-important lubricant of business activity, increased $6,851 during the year. Receipts exceeded disbursements by this amount for the entire year.

But, what does Table 1 not tell you that you absolutely need to know? The two most important things that the cash summary does not tell you are:

1. The ***profit*** for the year.

2. The ***financial position*** or position of the business at the end of the year.

Why doesn't Table 1 tell you the profit earned during the year? Profit is the total revenue (gross proceeds) less total expenses or costs. You can't count money borrowed or money invested by the owner as sales revenue. Certainly you don't earn profit by borrowing money that has to be repaid later. So the first step is to distinguish between two quite different sources of

cash: (a) the cash received from sales revenue, and (b) the cash received from borrowing and investments.

Next, we have to ask whether all the cash disbursements during the year are for expenses that should be deducted from sales revenue to determine profit. The first four disbursements in Table 1 are certainly expense related. But the fifth disbursement represents an expenditure for a capital asset. These expenditures for capital assets (land, a building, machines, equipment, and breeding livestock) are ***long-term*** investments. These resources are used over several years. To deduct all of their cost in the year of purchase would be very misleading for profit measurement. The sixth disbursement, family living expense, should be recognized to account for unpaid family labor in family owned and operated business structures.

Two Basic Types of Cash Flows

At this point, therefore, we should divide the cash flows into the two groups shown below. This reveals that the business raised $22,000 capital from borrowing, and invested $15,000 in certain long-term assets, leaving $7,000 cash available for other needs. We have already seen that the ending cash balance is $6,851. The business had negative cash flow from its profit-making operations, calf production, for the year, as shown below. Is this the amount of loss for the year? Did the business suffer a $149 loss for this operating year? No, cash flows are not the whole story.

(1)		(2)	
Cash Flows of Borrowing and Investing Capital		Cash Flows of Profit-Making Operations	
Received from borrowing	$12,000	Received from sales	$ 94,787
Received from investing	10,000	Spent for expenses:	
Total	$22,000	Purchases of Livestock	0
Spent for non-current	15,000	Operating Expenses	62,982
Net increase of cash	$ 7,000	Interest Expense	17,554
		Income Tax Expense	0
		Family Living Expense	$ 14,400
		TOTAL	$ 94,936
		Net decrease of cash	$ 149

Profit Cannot Be Measured by Cash Flows

Seldom if ever will cash flows during a certain period be the correct amounts to measure profit (or loss) correctly. To start with, this cow/calf business, like the vast majority of cow/calf businesses, produces products that are not sold. At the end of the year, this business has non-cash revenues of raised replacement stock, accounts receivables, and possibly non-cash transfers of calves to other enterprises.

So the cash received during the year from livestock sales is not total sales revenue for the year. The amount of non-cash revenue at year-end has to be added to the cash received. The correct sales revenue for the year is the sum of the two.

Cash disbursements are not the correct amounts for measuring expenses. Like sales revenue, the cash amount is not the whole story. It is imperative that increases (decreases) in accounts payable, notes payable, accrued taxes, inventory and prepaid and accrued interest be reflected when measuring expenses. The cash disbursement amounts shown in Table 1 do not include the additional or accrued amounts of these expenses that are unpaid at the end of the year.

The main point is this: Cash flows provide only part of the information needed to determine profit for a period of time. Cash flows do not include the complete sales revenue and expense activities for the period. A complete accounting is profit.

This "complete accounting" is known as the ***accrual basis or adjusted accrual basis*** in our example. Adjusted accrual basis accounting records the non-cash revenues from raised replacement stock and non-cash transfers, and also records the liabilities for unpaid expenses, in order to determine the correct profit measure for the period. Adjusted accrual basis accounting is also necessary to get a complete look at the business' assets other than cash, as well as its liabilities and other sources of capital.

Cash Flows Do Not Reveal Financial Position

The cash receipts and disbursements summary for the year (Table 1) does not reveal the financial position of the business. The business manager certainly needs to know the asset situation of the ranch operation, that is, how much inventory and other assets the business has. Also, the manager needs to know the amounts of the liabilities. The manager has the responsibility of keeping the business in a position to pay its liabilities when they come due. And the manager has to know whether the assets are too large (or too small) relative to the sales volume of the ranch operation. Lenders are also very interested in the same things.

In short, managers, lenders, and investors all need a summary report of the financial position (assets, liabilities, etc.) of the ranch business. And they need a correct profit performance report, which sums up sales revenue and expenses for the year. A cow/calf enterprise SPA analysis will provide a correct and complete profit performance report and a summary financial position report for the cow/calf enterprise. A cash flow summary is also very helpful, but in no sense does it take the place of the other two reports. The following discussion introduces these two basic accounting reports.

THE BALANCE SHEET AND INCOME STATEMENT

Financial position is presented in a report called the ***Balance Sheet***. The profit performance summary is called the ***Income Statement***. Both are called financial statements, or just "financials." Alterative titles for the Balance Sheet include the Net Worth Statement, Statement of Financial Position, and the Statement of Financial Position. Likewise, the Income

Statement may be called Profit or Loss Statement, Earnings Statement, or the Statement of Operations. Minor variations on all these titles are common.

Table 2 presents the Income Statement and Table 3 presents the Balance Sheet of the same cow/calf enterprise whose cash flows are shown in Table 1. The form and content of the Balance Sheet and Income Statement apply to a very broad range of production agriculture, manufacturers, wholesalers, and retailers. These financial statements are quite typical for any business that produces, buys, or makes products that are then sold to their customers. In other words, the two accounting reports summarize the financial position and profit-making activity of a business that deals in products.

Income Statement

Table 2. INCOME STATEMENT FOR YEAR

		Total	Per Cow
Gross Sales Revenue		$121,987	$489.91
Total Direct Operating Expense	(-)	52,687	211.59
Gross Margin	=	69,300	278.32
Total Indirect Expense	(-)	10,295	41.35
Depreciation Expense	(-)	5,650	22.69
Income After Operating Expense or Operating Earnings	=	53,355	214.28
Total Interest Expense	(-)	17,554	70.50
Net Ranch Income From Operations	=	35,801	143.78
Net Capital Gain (Loss)	(+)	0	0
Net Ranch Income Before Tax	=	35,801	143.78
Income Tax Expense	(-)	0	0
Net Income After Tax	=	35,801	143.78
Family Living Withdrawals	(-)	14,400	57.83
Net Income After Withdrawals or Net Earnings or Retained Earning	=	21,401	85.95

The Income Statement summarizes sales revenue and expenses over a period of time–for one year in Table 2. All the dollar amounts reported in this financial statement are cumulative revenue from cash and non-cash sales and transfers. The bottom line is Net Income (also called net earnings), which is the final profit remaining after all expenses and family withdrawals are deducted from sales revenue.

The Income Statement is designed to be read in a step-down manner, like walking down stairs. Each step down is a deduction of one or more expenses. The first step deducts the direct operating expenses from the revenue, which gives the line called gross margin (sometimes called gross profit). This measure of profit is called "gross" because several other expenses are not yet deducted.

Next, total indirect operating expenses and depreciation expenses are deducted, giving Income After Operating Expenses or operating earnings before the interest, net capital gain (loss) and income tax expenses. Deducting interest expense from operating earnings gives Net Ranch Income from Operations. Adding (subtracting) total capital gain (loss) gives Net Ranch Income before Tax. Subtracting income tax expense from this gives the final step down to net income. Adjusting Net Income for Family withdrawals, if any, gives Net Income After Withdrawals or Net Earnings, before capital distribution and contributions.

The Income Statement shown in Table 2 reports six profit lines: gross margin, operating earnings, Net Ranch Income from Operations, Net Ranch Income Before Tax, Net Income After Tax and Net Income After Withdrawals. However, some companies report only two profit lines. They add together all expenses below the gross margin line into one total amount, which is subtracted from gross margin to go directly to net income. There's no standard rule; reporting practices differ. The format in Table 2 is consistent with the SPA financial and economic summary provided producers who complete the SPA analysis.

The final bottom line profit measure in the Income Statement is simply revenue less all expenses. Is it true and accurate? This depends on whether revenue is measured correctly for the period and whether every expense is measured correctly for the period. These basic accounting measurement rules are discussed briefly at this point:

Revenue–total amount received or to be received from the sales of livestock products during the period. Revenue should include the change in base value of raised replacement stock and breeding stock. Revenue from sale of cull breeding stock is net of capital gain (or loss).

Operating Expenses–broadly speaking, should include every direct and indirect expense associated with the cow/calf enterprise other than depreciation, interest, and income tax. Warning: reporting practices for operating expenses are not uniform. The NCA-IRM-SPA format for expenses affords a great deal of detail so that you can develop a good understanding and sensitivity to where expenses occur in your business. Even in a relatively "simple" ranch business, there are many different expenses, some rather large and some very small. For records and management purposes, I recommend that you have no more primary expense accounts that there are lines on a Schedule F.

Depreciation Expense–fraction of the original cost of long-term operating assets (buildings, machinery, equipment, tools, and purchased breeding livestock) that is recorded to non-cash expense during this period. This is the "charge" for using the assets during the period.

Interest Expense–total amount of interest on debt (interest-bearing liabilities) for the

period. Other types of financing charges may also be included, such as loan-fees.

Income Tax Expense–total amount due the government on the taxable income earned by the business during the period. This is determined by multiplying the taxable income for the period by the appropriate tax rates, less any credits (direct deductions). Income Tax Expense does not include other types of taxes, such as unemployment and social security taxes on payroll and property taxes, which are included in Operating Expenses. However, state income taxes are included. Note, in our example, because this operation reports tax on a cash basis accounting, and net cash ranch income was negative for the year, there was no tax expense to report, even though a total accounting showed a positive Net Income. The point here, do not confuse the complete accounting (financial statements and SPA analysis) which is for managerial purposes with accounting for tax purposes.

Balance Sheet

The Balance Sheet format in Table 3 follows fairly standardized and uniform rules of classification and ordering. (The Income Statement is somewhat more flexible.) On the left side the Balance Sheet lists assets. On the right side it lists liabilities and owners' equity. Each separate asset, liability, and owners' equity reported in the Balance Sheet is called an ***account***. Every account has a name (title) and a dollar amount, which is called its balance.

The Balance Sheet is prepared at the end of the Income Statement or business reporting period. If, for example, the Income Statement is for the year ending December 31, 1993, the Balance Sheet is prepared on or very close to December 31, 1993. The accounts' balances reported in the Balance sheet are the amounts at that point in time. The financial situation of the business is "frozen" for that day, as it were. The SPA analysis process recommends preparation of both a cost basis and market value balance sheet.

The Balance Sheet does not report the total flows into and out of the assets, liabilities, and owners' equity accounts during the period. Only the ending balance at the Balance Sheet date is reported for each account. For example, the company has an ending Cash balance of $6,851 (see Table 3). Can you tell the cash receipts and disbursements during the year? No, not from the Balance Sheet.

Current Assets are cash and those other assets that could be converted into cash during one operating cycle. Assets not directly involved in the operating cycle (such as marketable securities or receivables) are included in Current Assets if they will be converted into cash during the coming year.

Although not as common today, in the past the assets grouped in the category property, machinery and equipment were called Fixed Assets. However, this term is not satisfactory. Fixed assets are not really fixed or permanent, excepting the land owned by a business. More accurately, these are long-term operating or non-current assets used by a business over several years, such as buildings, machinery and equipment, breeding livestock, and so on.

Table 3. COW/CALF ENTERPRISE BALANCE SHEET AT END OF YEAR OF BUSINESS (Cost Basis)[1]

Current Assets			**Current Liabilities**		
Cash		$ 6,851	Accounts Payable		$ 6,000
Accounts Receivable		5,000	Accrued Expenses		5,829
Inventory (raised breeding stock		28,000	Income Tax Payable		0
Prepaid Expenses		11,088	Short-Term Notes Payable		0
Total Current Assets		$50,939	Total Current Liabilities		$11,829
Non-Current Assets			**Non-Current Liabilities**		
Breeding Livestock		$194,280	Non-Real Estate Liabilities		$ 12,000
Machinery & Equip	39,550		Real Estate Liabilities		213,500
Accum. Depr.	16,095	23,455	Total Non-Current Liabilities		$225,500
Real Estate Assets		250,000	Equity:		
Total Non-Current Assets		$467,735	Retained Earnings	21,401	
			Net Capital Contri.	10,000	
			Beg. Owner's Equity	249,944	
			Total Equity, Ending		$281,345
Total Assets		$518,674	Total Liabilities & Equity		$518,674

[1] Cost Basis Balance Sheet

The cost of a long-lived operating asset, excepting land, is gradually charged off over its useful life. The cumulative amount of its cost that has been charged off since the date of acquisition up to the Balance Sheet date is in the Accumulated Depreciation account. The balance in this account is deducted from the original cost balance in the asset account. These are the values reported in a cost basis balance sheet.

Liabilities are claims on the assets of a business; cash or other assets that will be converted into cash later will be used to pay the liabilities. It's apparent, therefore, that liabilities should be accounted for in the Balance Sheet.

The official definition of Current Liabilities runs 200 words, plus a long footnote. Briefly, these are short-term debts that for the most part depend on the conversion of current assets into cash for their payment. Also, other debts that will come due within one year from the Balance Sheet date are put in the Current Liabilities class.

Long-Term Liabilities are debts whose maturity dates are more than one year after the

Balance Sheet date. Either in the Balance Sheet or in a footnote to the statement, the maturity dates and other relevant provisions of all long-term liabilities should be disclosed. To simplify, no footnotes are presented here.

Liabilities are also sources of assets. Clearly, the total assets of a business increase when it borrows money. Also, a business has liabilities for unpaid expenses. The business has not had to use some of its assets to pay these liabilities.

The other reason for reporting liabilities in the Balance Sheet is to account for the sources of the business' assets–to answer the question: Where did the business' total assets come from? A complete Balance Sheet accounting requires that all sources of the business' assets be accounted for. In addition to liabilities, the other basic source of a total assets is from its owners. The Owner's Equity class reveals the rest of the sources of a company's total assets.

When the owners invest capital in the ranch business, the Capital account is increased. The amount of net income (profit) earned by a business less the amount distributed to its owners for family living withdrawals or capital distribution from profit gives the amount of earnings retained in the business. This amount is recorded in the Retained Earnings account.

Summary

A great deal of financial records are kept for tax purposes but are not transferred into meaningful production costs or profitability measures for management purposes. Cash income and cost data used to complete Internal Revenue Service (IRS) reports are not sufficient to measure profits. However, combining IRS data with additional information, can provide much of the data required to prepare complete accounting or adjusted accrual income statements for meaningful profitability performance analysis.

Developing and effectively using data and information offers great opportunities in the cow-calf sector to reduce cost and increase profits. SPA is an excellent first step in the Integrated Resource Management (IRM) approach to cost control and identifying opportunities for change. SPA and IRM can assist in finding ways that the total farm or ranch resources can be more effectively and efficiently utilized to achieve business goals. No single production or management area can be emphasized to the neglect of another area or factor of production. Each farm/ranch business is different, meaning "generalized solutions" that neglect differences are seldom correct.

Much of what I covered here was probably a review for many of you. For others, it was a first look at financial statements and SPA in this context. Regardless, my point here today is that if controlling cost in your cow/calf enterprise is a business management objective, then understanding the financial statements, your "financials," should be a management goal. Remember management control of the business and the related threefold task of financial management–i.e., profit, financial position and cash flows.