

FBS USER CONFERENCE

FARM FINANCIAL STANDARDS COUNCIL UPDATE

August 23, 2006



FARM FINANCIAL STANDARDS COUNCIL

MISSION STATEMENT

To provide education and a national forum to facilitate the development, review, communication and promotion of uniformity and integrity in both financial reporting and the analytic techniques useful for effective and realistic measurement of the financial position and the financial performance of agricultural producers.



FINANCIAL GUIDELINES FOR AGRICULTURAL PRODUCERS

Goals

1. To establish recommended standards for format and content of external financial reports of agricultural producers
2. To identify certain financial measures (usually ratios) common to all areas of agriculture and establish standardized methods of calculating these measures
3. To encourage the development of an agricultural database



COMMODITY GROUPS STANDARDIZATION EFFORT

- A lot of work by groups 10 years ago
- NPPC initiative led the way
- ASA, NGCA, and NCBA discussions
- Goal to establish a common chart of accounts for all commodities
- Struggle lead to request the FFSC to provide direction
- Formation of a FFSC Task Force in 2000 to develop Management Accounting Guidelines



MANAGEMENT ACCOUNTING GUIDELINES

PRIORITIES

1. Establish a foundation for benchmarking in agriculture
2. Improve producer understanding of cost of production
3. Establish a more standardized base level chart of accounts.



MA DOCUMENT STATUS

- Draft released in December 2005
- Draft posted to FFSC website in March 2006 with opportunity for comments
- Comments reviewed and draft critiqued at FFSC Technical Symposium on August 7
- Changes incorporated for final approval at the FFSC Annual Meeting in December 2006
- On going revisions will continue



MA PROJECT CORE CONCEPTS

1. Requirement for accrual, cost based accounting records.
2. Responsibility center (manageable segment) approach for information accumulation and reporting will be used.
3. Integration of production factors/measurements into management accounting framework.



MA PROJECT CORE CONCEPTS (cont'd)

4. Core transactional information is accumulated and then supplemented with economic concepts and analysis
5. Guided by consistency with GAAP, commercial industry practice, multi-commodity applicability, and standardization capabilities.
6. Accommodation of multiple production cycles.



CONCLUSIONS FROM EARLY MA EXPOSURE

1. Implementation is a bigger challenge than most people realize.
2. Management accounting design needs to mirror a farm's business management structure.
3. Peer group benchmarking is secondary not a primary benefit of MA.
4. Cost management is the "land of opportunity" with great potential for improving business performance; the key to understanding and improving cost structure lies in the tools available through MA.



CONCLUSIONS FROM EARLY MA EXPOSURE (cont'd)

5. The carrot that motivates producers to implement MA is not the satisfaction of crunching out cost and profit center reports.
6. It's okay to pursue a "phased" approach in MA implementation.
7. Defining capture periods for indirect cost accumulation and allocation will be a huge obstacle for growers with diverse enterprises and multi-year production cycles...but these producers have the most to gain from MA.



CONCLUSIONS FROM EARLY MA EXPOSURE (cont'd)

8. MA can create a significant change in marketing behavior and strategies.
9. Developing adequate computer software will be a critical component for furthering implementation.



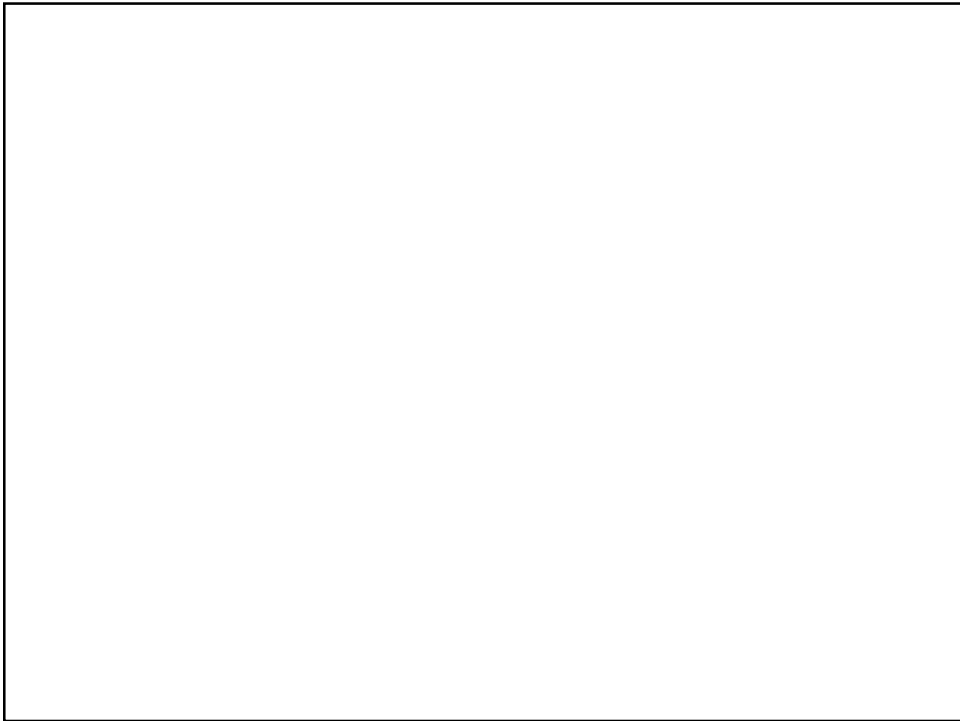
BENEFITS OF MA ADOPTION

- More optimization of equipment procurement strategies – buying, leasing, sharing, etc
- Increased understanding of overhead costs and strategies that streamline costs
- Better foundation for adding new ventures; shedding non-viable enterprises
- Improved marketing-strategies based on cost of production, target margins
- More objective foundation for evaluating segment managers

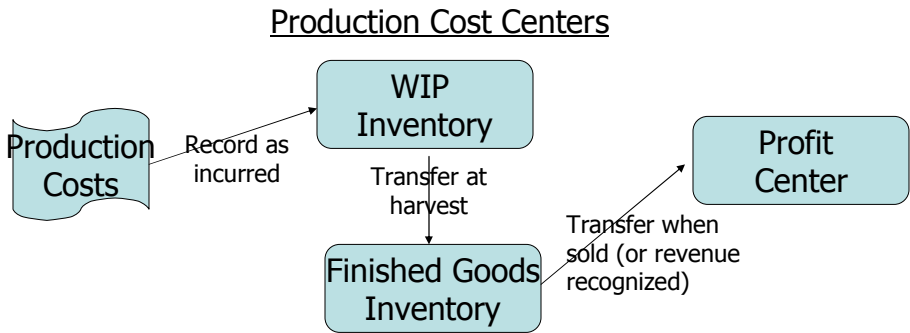


WHERE TO FROM HERE?

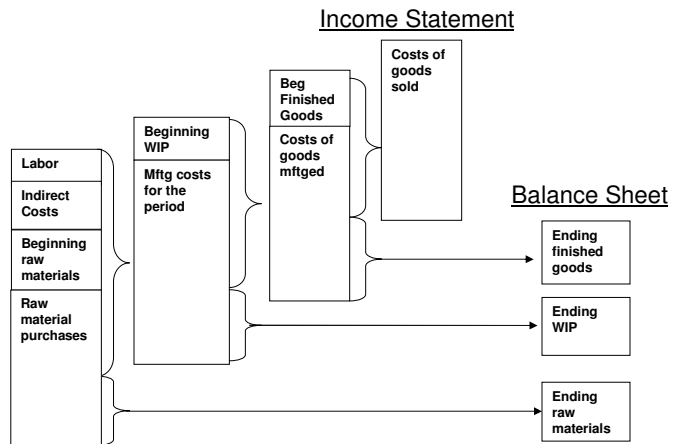
- FFSC is at a critical juncture
- Close up shop, amble along, or expand focus
- View documents at www.ffsc.org
- Questions



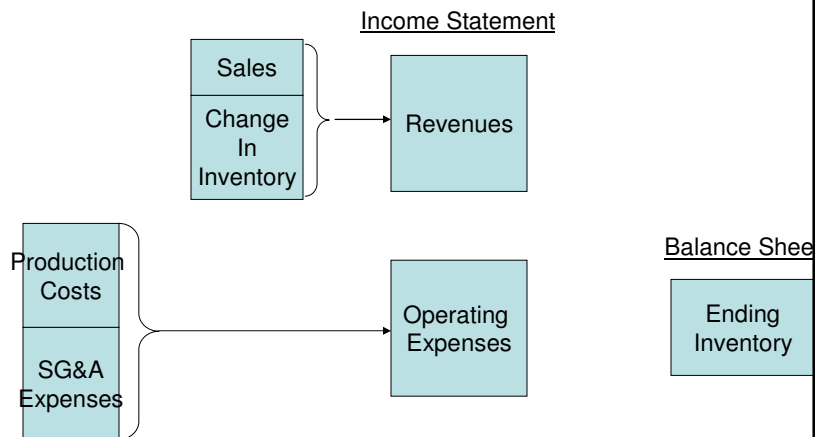
First and Foremost, the MA Project is about Inventory Costs



A Manufacturing Approach



The typical ag approach



The Continuum of Costs

