

FFSC UPDATE

2007 FBS User Conference
August 22, 2007

Ron Swanson, Past President
FFSC Board of Directors



Background: I

- ◆ Decade of the 1970's
 - The Go-Go Years of Agriculture

- ◆ Decade of the 1980's
 - The Farm Debt Crisis



FFSC-Mission Statement

To provide a national forum for developing standards and implementation guidelines for preparers and users of agricultural financial information that will promote uniformity and integrity in financial analysis and reporting for agricultural producers.



FFSC-Vision Statement

Our mission will be accomplished when:

- ◆ forums we sponsor address critical areas where standards are needed
- ◆ standards supplement already existing bodies of general accounting and financial analysis
- ◆ standards are developed in a timely manner
- ◆ Council efforts are perceived with credibility by industry participation
- ◆ standards are readily accessible



FFSC-Core Values Statement: I

A key ingredient that has contributed to the Council's historical success has been living by the code, "We check our egos at the door and work for the common interests of the producers and practitioners we serve." The Council will continue to approach its efforts with:



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FFSC-Core Values Statement: II

- ♦ openness to all points of view, regardless of the vocation or respective allegiance of participants to specific employers or industry affiliations
- ♦ priority placed on reaching commonality in consensus, but not excluding other points of view



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FFSC-Core Values Statement: III

- ◆ interests of the ultimate customer (producers and practitioners who serve their interests) taking priority over interests of specific entities who may be represented on the Council



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Managerial Accounting Project

- ◆ Brief History
 - Summer symposium 1996
Urged the FFSC to develop a uniform chart of accounts
 - November 1997, FFSC Directors supported the effort
 - Uniform chart at highest level
 - Discuss management accounting and management information systems for ag producers



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Managerial Accounting Project

- ◆ Major funding from:
 - National Cattlemen's Beef Association
 - National Corn Growers
 - National Pork Producers Council
 - United Soybean Board
- ◆ 2002 Exposure drafts were distributed
- ◆ Discussions/revisions 2002-2006



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The Need for the Managerial Accounting Guidelines

- ◆ Because the concepts and process addressed by the project are critically important for commercial producers
 - Ultimately for benchmarking and continuous improvement applications
 - Initially to create more robustness in internal accounting systems and understanding of cost
- ◆ Implementation and training activities continue in the private sector
- ◆ There is a strong need for a forum to achieve whatever consensus may be possible – to at least provide a baseline, independent source of information for producers as well as suppliers



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Source: Hofing, 2006

Benefits of Managerial Accounting 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

Development Process Objectives

- ◆ To insure that the document was well grounded in accepted commercial concepts of managerial accounting
- ◆ To recognize that, unlike the original FFSC Guidelines, this material was unfamiliar to many FFSC participants, and would take time to expose, discuss, and resolve issues
- ◆ To build linkage with traditional farm management and economic concepts and make the material relevant to ag-specific situations
- ◆ To not get ahead of the ongoing work going on by the various commodity groups

Scope of Managerial Accounting

What is it?

- ◆ Farm records, service providers and universities have focused on enterprise budgets and enterprise analysis
 - Allocation of costs across major enterprises
 - Accounting information and economic data



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Segment based reporting differences

- ◆ Primary focus on capturing actual cost data
- ◆ Accumulation of costs at levels where they are controllable by management
 - Example: Power and machinery cost center
- ◆ Aggregation of costs and revenues at levels of the organization where profitability can be measured in absolute terms and relative to the assets employed to generate those revenues



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Concept of Responsibility Centers

- ◆ Cost centers
- ◆ Revenue centers
- ◆ Profit centers
- ◆ Investment centers

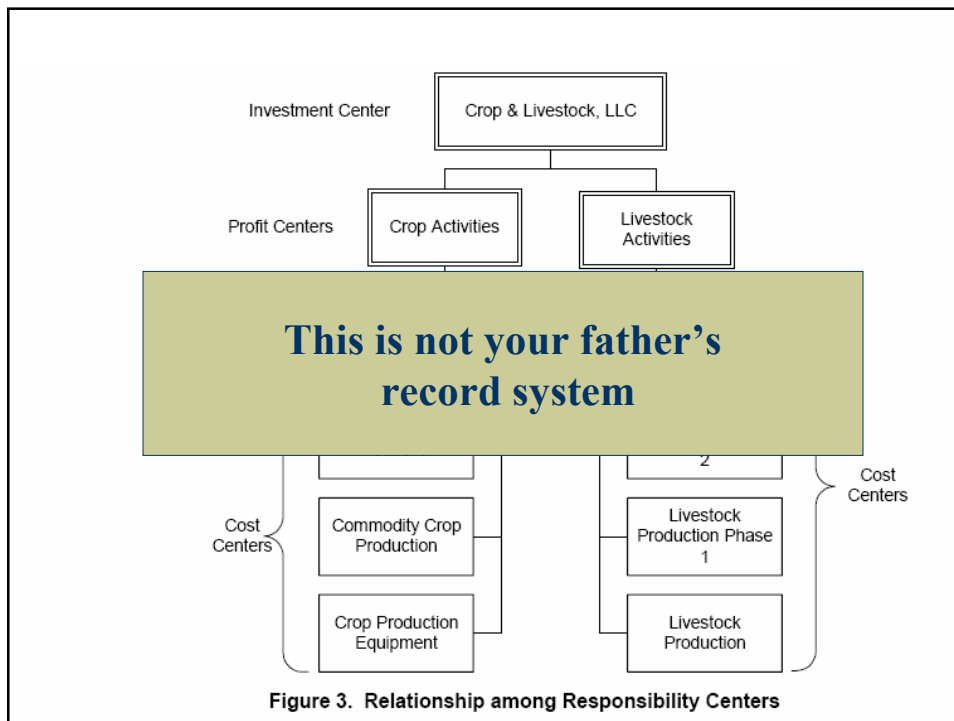


Figure 3. Relationship among Responsibility Centers

Managerial Accounting Project

114 page document

6 Core Concepts

1. Requirement for accrual, cost-based accounting records
2. Responsibility center approach for information accumulation and reporting will be used
3. Integration of production factors/measurements
4. Accumulated core transactional information supplemented with economic concepts and analysis
5. Guided by consistency with Generally Accepted Accounting Principals (GAAP), commercial industry practice, multi-commodity applicability, and standardization capabilities.
6. Accommodation of multiple period production cycles.



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Eight Sections:

1. The need for understanding costs
2. Basics of managerial accounting
3. Management accounting levels of reporting
4. Management accounting issues for agriculture
5. Chart of accounts
6. A process for setting up your system
7. Glossary and definitions
8. Appendix A



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Managerial Accounting Project

Very detailed approach –
certainly not for everyone !



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Financial Standards Updates

- ◆ Depreciation
- ◆ Appendix A
- ◆ Appendix C
- ◆ Cooperative Stock



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Distribution Plan

- ◆ Produce a CD with MA and Updated Financial Guidelines
 - Nominal fee
 - Not-for-profit: educators, free
 - Nominal duplication cost for copies disseminated at not-for-profit educational seminars
- ◆ Web site www.ffsc.org updates on technical/annual meetings



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FFSC Location

Farm Financial Standards Council
N78 W14573 Appleton Avenue
Suite 287
Menomonee Falls, WI 53051

262-253-6902

www.ffsc.org



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Successful Farming MA Series

Dan Looker
Business Editor
Successful Farming Magazine



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