

Farm Financial Standards Council
Managerial Accounting Guidelines

- **Build from previous work initiated by:**
 - National Pork Producers Council
 - National Corn Growers Association
 - United Soybean Board
 - National Cattlemen's Beef Association



Copyright © 2006 Center for Farm Financial Management, University of Minnesota.

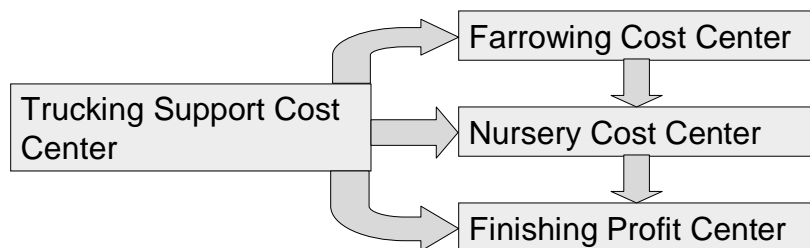
Managerial Accounting Guidelines
Core Concepts

- **Require accrual, cost-based accounting**
- **Responsibility center approach**
- **Integration of production and financial**
- **Accumulated core transactional information with economic concepts and analysis**
- **Guided by consistency with:**
 - GAAP
 - Commercial industry practice
 - Multiple commodity applicability
 - Standardization capabilities
- **Accommodation of multi-period production cycles**



Copyright © 2006 Center for Farm Financial Management, University of Minnesota.

Responsibility Centers
Farrow to Finish Example



Managerial Accounting Guidelines
Balance Sheet Categories

Traditional Ag

- Prepaid expenses
- Growing crops
- Inventory at market

MA Cost Accounting

- Raw materials
- Work in process
- Finished goods at cost



Managerial Accounting Guidelines

Traditional Income Statement

Table 1. John and Mary Farmer, Financial Statement, December 20X4

John and Mary Farmer Farm Income Statement For the Period January 1, 20X4 Thru December 31, 20X4		
Revenues		
Crop Revenues [cash]	0	
Increase/(Decrease) in Crop Inventories	<u>900,000</u>	
Gross Revenues		900,000
Operating Expenses		
Operating Expenses [cash]	528,000	
(Increase)/Decrease Prepaid Expenses	(10,000)	
(Increase)/Decrease Cash Investment in Growing Crops	(40,000)	
(Increase)/Decrease Other Current Assets	0	
Increase/(Decrease) Accounts Payable	0	
Increase/(Decrease) Other Accrued Expenses	0	
Depreciation Expense	<u>124,000</u>	
Total Operating Expenses		602,000
Operating Margin		298,000

Source: Management Accounting Guidelines for Agricultural Producers

Managerial Accounting Guidelines

MA Income Statement

Table 2. John and Mary Farmer, Statement of Operations, December 2004

John and Mary Farmer Statement of Operations For the period January 01, 2004 through December 31, 2004	
	Amount
Revenue	
Sales - Corn	-
Sales - Soybeans	<u>-</u>
Total Revenue	-
Production Expense (COGS)	
Production Expense (COGS) - Corn	-
Production Expense (COGS) - Soybeans	<u>-</u>
Total Production Expense (COGS)	-
Production Margin	-
Sales, General and Administrative Expense	
Sales Expense	-
Marketing Expense	3,000
Transportation Expense	-
G&A Expense	<u>35,000</u>
Total Sales, General, and Administrative	38,000
Operating Margin	(38,000)

Source: Management Accounting Guidelines for Agricultural Producers

Managerial Accounting Guidelines

Traditional Income Statement

Table 3. John and Mary Farmer, Farm Income Statement, January 2005

John and Mary Farmer Farm Income Statement For the Period January 1, 2005 Thru January 31, 2005		
Revenues		
Crop Revenues [cash]	892,500	
Increase/(Decrease) in Crop Inventories	<u>(900,000)</u>	
Gross Revenues		(7,500)
Operating Expenses		
Operating Expenses [cash]	33,700	
(Increase)/Decrease Prepaid Expenses	0	
(Increase)/Decrease Cash Investment in Growing Crops	0	
(Increase)/Decrease Other Current Assets	0	
Increase/(Decrease) Accounts Payable	0	
Increase/(Decrease) Other Accrued Expenses	0	
Depreciation Expense	<u>0</u>	
Total Operating Expenses		33,700
Operating Margin		<u>(41,200)</u>

Source: Management Accounting Guidelines for Agricultural Producers

Managerial Accounting Guidelines

MA Income Statement

Table 4. John and Mary Farmer, Statement of Operations, January 2005

John and Mary Farmer Statement of Operations For the period January 1, 2005, through January 31, 2005	
	Amount
Revenue	
Sales - Corn	612,500
Sales - Soybeans	<u>290,000</u>
Total Revenue	892,500
Production Expense (COGS)	
Production Expense (COGS) - Corn	338,400
Production Expense (COGS) - Soybeans	<u>225,600</u>
Total Production Expense (COGS)	564,000
Production Margin	328,500
Sales, General and Administrative Expense	
Sales Expense	1,200
Marketing Expense	-
Transportation Expense	30,000
G&A Expense	<u>2,500</u>
Total Sales, General, and Administrative	33,700
Operating Margin	<u>294,800</u>

Source: Management Accounting Guidelines for Agricultural Producers

FFSC MA Reporting Example 1
Corn Production Cost Center Activity Report
For the period December 01, 2003 through November 30, 2004

	Amount	Qty 1		Qty 2	
		Acres		Bushels	
		1,400	254,300		
Revenue					
Multi-Peril Insurance	4,544	3.20	0.02		
Total Revenue	4,544	3.20	0.02		
Direct Production Cost					
Land Rent Cost	184,600	130.00	0.79		
Chemicals	24,424	17.20	0.10		
Seed	52,540	37.00	0.22		
Fertilizer	149,100	105.00	0.64		
Fertilizer Application	7,589	5.33	0.03		
Insur - Crop	15,904	11.20	0.07		
Agronomist/Scout	5,660	4.00	0.02		
Repairs - Improv & Bldgs	114	0.08	0.00		
Grain Drying Cost	5,254	3.70	0.02		
Other Mac	1,420	1.00			
Total Direct Production Cost	448,634	314.51	1.91		
Indirect Production Cost					
Machinery	65,916	46.42	0.28		
General Crop	48,777	34.35	0.21		
Total Indirect Production Cost	114,693	80.77	0.49		
Total Production Cost	563,327	395.28	2.40		
Total Production Cost Net of Revenue	558,783	392.08	2.38		
	Allocated to	Amount	%		
	Finished Goods - Corn	558,784	100%		

FFSC MA Reporting Example 1
Crop Profit Center Report
For the period January 01, 2004 through December 31, 2004

	Amount	Qty 1		Qty 2	
		Acres		-	
		2,620	-	-	-
Revenue					
Sales - Corn	636,000	243.51			
Sales - Soybeans	230,400	87.94			
#N/A					
Total Revenue	866,400	331.45	-		
Production Expense (COGS)					
Production Expense (COGS) - Corn	572,000	216.32			
Production Expense (COGS) - Soybeans	159,040	60.70			
Total Production Expense (COGS)	731,040	279.02	-		
Production Margin	137,360	52.43	-		
Sales, General and Administrative Expense					
Sales Expense	11,622	4.44	-		
Marketing Expense	800	0.31	-		
Transportation Expense	17,453	6.66	-		
G&A Expense	37,377	14.27	-		
Total Sales, General, and Administrative	67,252	25.67	-		
Operating Margin	70,108	26.76	-		
Other Expense					
Interest Expense (Net)	39,856	15.21	-		
(Gain) Loss on Non-Operating Asset Disposal	(2,765)	(1.06)	-		
Other Expense (Income)	-	-	-		
Total Other Expense	37,091	14.16	-		
Total Expense	835,383	318.85	-		
Net Income Before Tax	33,017	12.60	-		

Managerial Accounting Guidelines

Audience

- Ag industry has output of \$200 Billion
- 389 farms accounted for 10%
- 3,201 farms accounted for next 15%
- 30,495 farms accounted for next 25%
- 2,000,000 farms accounted for the rest
- Core audience for MA is the 2nd tier plus those from the 3rd tier who still want to be there 10 years from now
 - Source Steve Hofing



Copyright © 2006 Center for Farm Financial Management, University of Minnesota.

Managerial Accounting Guidelines

Our Role

- Awareness
- Application of economics
- ???



Copyright © 2006 Center for Farm Financial Management, University of Minnesota.