



# Farm Financial Standards Council Update – Big Data Will Drive Financial Statements

Paul Neiffer, CPA

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# Paul Neiffer Bio

- Paul is an Agribusiness CPA and Principal with CliftonLarsonAllen LLP located in the Kennewick and Yakima, Washington offices. Paul writes a monthly column for Top Producer magazine called the “Farm CPA” and is the primary writer and editor for the nationally recognized farm blog “Farm CPA Today” ([www.farmcpatoday.com](http://www.farmcpatoday.com)).
- Paul gives numerous talks on various tax, accounting and succession planning topics to farmers, CPAs, attorneys, bankers and others each year. Paul currently serves as the president for the Farm Financial Standards Council.
- Paul grew up on a wheat farm in Southeastern Washington State and still enjoys going home each summer to help operate the combine in wheat harvest. This is his idea of a vacation.
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# Agenda

- Background on the FFSC
- The Standards History
- What are the Types of Farm Financial Records
- How might “Big Data” drive accounting in the future



# A Typical Farmer's Income Statement

**SCHEDULE F  
(Form 1040)**

Department of the Treasury  
Internal Revenue Service (99)

## Profit or Loss From Farming

▶ Attach to Form 1040, Form 1040NR, Form 1041, Form 1065, or Form 1065-B.  
▶ Information about Schedule F and its separate instructions is at [www.irs.gov/schedulef](http://www.irs.gov/schedulef).

OMB No. 1545-0074

**2014**

Attachment  
Sequence No. **14**

Name of proprietor		Social security number (SSN)	
A Principal crop or activity		B Enter code from Part IV	C Accounting method: <input type="checkbox"/> Cash <input type="checkbox"/> Accrual
E Did you "materially participate" in the operation of this business during 2014? If "No," see instructions for limit on passive losses		<input type="checkbox"/> Yes <input type="checkbox"/> No	
F Did you make any payments in 2014 that would require you to file Form(s) 1099 (see instructions)?		<input type="checkbox"/> Yes <input type="checkbox"/> No	
G If "Yes," did you or will you file required Forms 1099?		<input type="checkbox"/> Yes <input type="checkbox"/> No	

**Part I Farm Income – Cash Method.** Complete Parts I and II (Accrual method. Complete Parts II and III, and Part I, line 9.)





# Farm Financial Standards Council Background

## About the Farm Financial Standards Council (FFSC)

- Comprised of producers, ag lenders (banks and farm credit), farm managers, accountants, consultants, academicians
- Two sets of guidelines
  - Financial Guidelines (updated annually)
  - Management Accounting Guidelines (last update 2008 – revised January 2016)
  - Both sets are available for download at [www.ffsc.org](http://www.ffsc.org) for a nominal fee





## FFSC Mission

*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 analytical techniques useful for effective and realistic measurement of the financial position and the financial performance of agricultural producers.*



# FFSC Vision

*To be recognized as the definitive resource of financial guidelines to benefit agricultural producers.*



## FFSC Goals

- To establish recommended standards for format and content of financial reports of agricultural producers;
- To identify certain financial measures (usually ratios) common to all areas of the country and all sectors of agriculture and establish standardized methods of calculating those measures;
- To provide a network of like-minded people to help facilitate these goals and communicate the standards in a professional manner





# The Standards History

# History of the FFSC

- “Financial Guidelines for Agriculture Producers” Report
  - Initial meeting January 22, 1989
  - Exposure draft released May 1990
  - Original report issued May 1991
  - Cash to accrual appendix issued in November 1993
  - Expanded report with “Disclosure by Notes” and glossary, December 1997
  - Revised report issued January 2008
  - Revised report issued April 2011
  - Revised report issued Jan 2014 (accounting for hedges)
  - Annual updated releases starting January 2015



## History of the FFSC, cont.

- “Management Accounting Guidelines for Agriculture Producers” Report
  - November 1997, FFSC endorsed a recommendation to develop of uniform chart of accounts and management accounting guidelines
  - Began formal effort in summer 2000
  - Exposure draft issued December 2005
  - Final report approved December 2006
  - Final report issued January 2008
  - Revised report to be issued January 2016



## Key Recommendations: Departures from GAAP

- Both Cost and Market Required, Either Can Be Primary Format
  - With Market Value as Primary B/S Format, Owner Equity Section Must Delineate at least Retained Capital and Valuation/Personal Asset Equity
- Inventory Valuation—Market Values Acceptable for Market Livestock
- Raised Breeding Livestock—Base Value Method Acceptable
- Capital Leases—Estimation Approach Acceptable



## Key Recommendations: Departures from Common Lender Practice

- Cost and Market of Capital Assets
- Balance Sheet Format—Two Category
- Income Statement Format
- Separation of Personal Assets and Liabilities
- Treatment of Withdrawals and Non-Farm Income on the SCF and Income Statement
- Incorporation of Deferred Taxes and Capital Leases
- Depreciation—Book, Not % of Market or Tax





# Two Common Misconceptions About the FFSC Recommendations

## 1. GAAP Compliance

- Myth: ...meant as a substitute for or replacement of GAAP
- Fact: ...based on the Conceptual Framework documents, and are largely consistent w/GAAP. Accountant opinions based on FFSC Recommendations are and will continue to be qualified.

## 2. Credit Analysis

- Myth: ...are meant as credit analysis recommendations
- Fact: Development of an effective credit process requires evaluation of numerous factors beyond the scope of the FFSC Recommendations.





# Types of Farm Accounting Systems

# Types of Farm Accounting Systems

## Cash

- Probably used by more than 90% of all farmers
- Never reflects true profitability

## Farm Accrual

- Reporting of income before sale
- Farm Financial Standards could be close to farm accrual method

## True Accrual

- Income and Expense Reported at time of sale
- FBS Systems could reflect this method



# Sample Cash Method Statement

Corn sales	\$	150,000
Seed		20,000
Fertilizer		35,000
Labor		25,000
Chemicals		15,000
Other		20,000
<b>Total expenses</b>		<b>115,000</b>
<b>Net income</b>	<b>\$</b>	<b>35,000</b>



# Sample Farm Accrual Method Statement

Corn sold during year	150,000
Beginning inventory value	(35,000)
Ending inventory value	55,000
<b>Net corn sales</b>	<b>170,000</b>
Seed	20,000
Fertilizer	35,000
Labor	25,000
Chemicals	15,000
Other	20,000
<b>Total expenses</b>	<b>115,000</b>
<b>Net income</b>	<b>55,000</b>

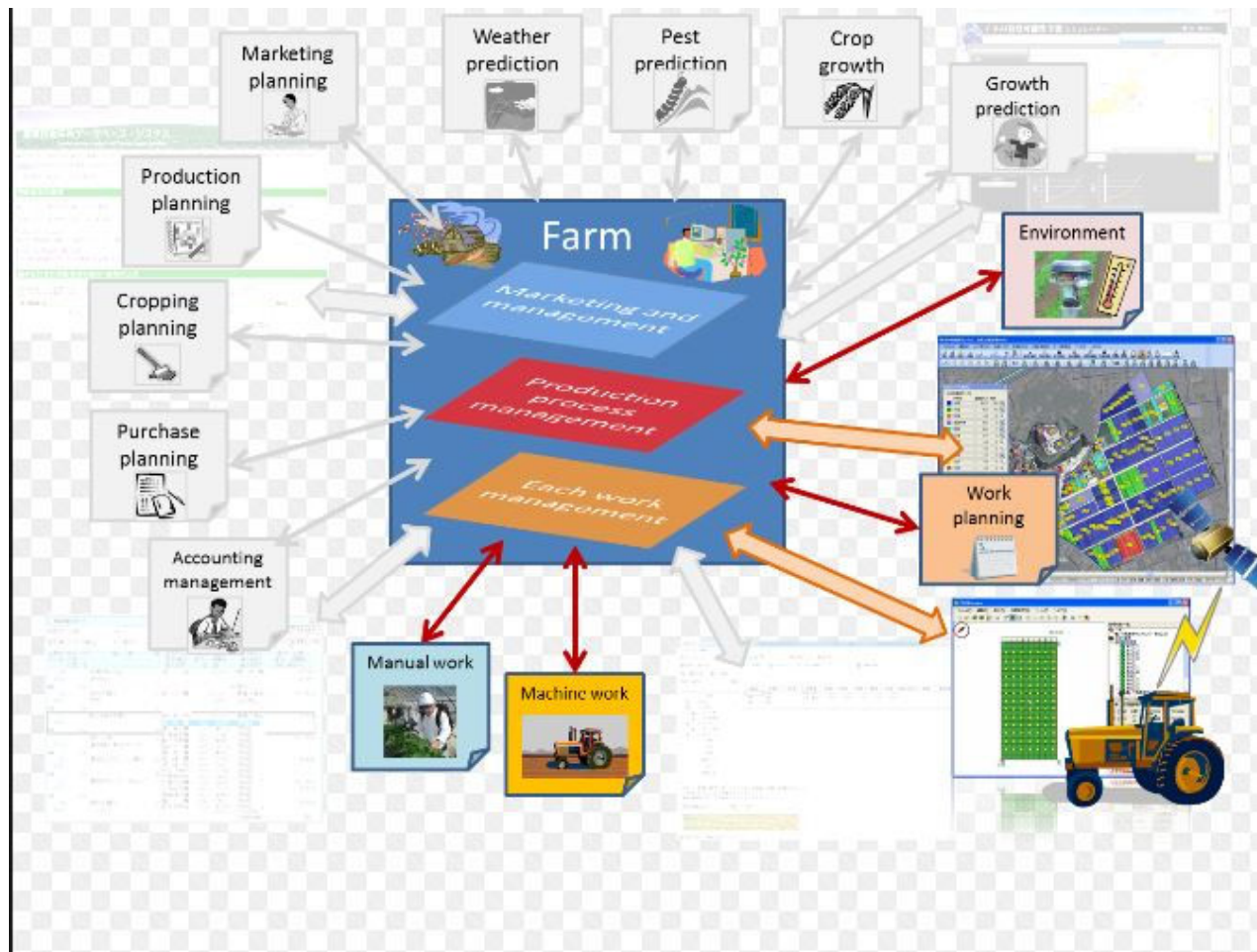


# Sample True Accrual Method Statement

25,000 bushels corn sold	150,000
<u>Cost of goods sold at \$4 per bushel</u>	<u>100,000</u>
Gross profit	50,000
<u>G &amp; A costs</u>	<u>10,000</u>
<u>Net income</u>	<u>40,000</u>



# The Farm Cycle



# A Farm is a Manufacturing Company

- Three Types of Inventories
  - Raw Materials
    - ◇ Seed not yet planted
    - ◇ Fertilizers and chemicals purchased not yet used
    - ◇ Fuel purchased but not yet used
  - Work in Progress
    - ◇ All costs incurred between planting and harvest including raw materials transferred to WIP
  - Finished Goods
    - ◇ Total costs incurred when converted to units of finished production, i.e. corn, beans, wheat, etc.
    - ◇ This cost per unit is treated as cost of goods sold as crop is sold





## Livestock Producers – Slightly Different

- Livestock producers have raw materials and work in progress, but finished goods is usually when the animal goes to market
  - Unlike row crop producers who can store finished goods for long periods of time



# Current Methods of Farm Accounting

- Whole Farm
  - All items of income and expense is lumped into one income statement
  - No breakdown of profit centers by crop, enterprise, field, etc.
  - I would estimate more than 50% of farmers fall into this category



## Current Methods - continued

- Yearly Crop Approach
  - Income and expense breakdown by crop categories
  - However, only for the fiscal year of the farm
  - Income incurred after year-end is not tracked by crop
  - Expenses incurred before year-end are not matched to current crop
  - I estimate 10-15% of farmers fall into this category



## Current Methods - continued

- Crops over years approach
  - Income statement reflects net income by crop over the time period of the crop
    - ◇ Example, winter wheat is planted in year X1, harvested in year X2 and sold in year X3, these farmers will track all income and expense for wheat over these three years
  - I would estimate less than 10% of farmers use this method



## Current Methods - continued

- Accounting by field
  - All items of income and expense are specifically allocated to each field on the farm operation
  - Farmer may track this
    - ◇ By Crop for a single year
    - ◇ By Crop over multiple years
  - I would estimate less than 5% of farmers use this method



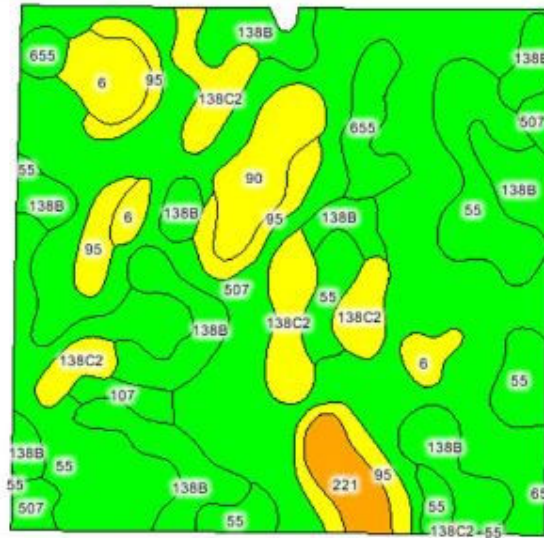


# How Will Big Data Change Financial Records?

# Soil Types – Macro (Similar to Most Farmers)



# Soil Types – Micro (Big Data to the Rescue)



Code	Soil Description	CSR Legend	Acres	Percent of field	Non-Irr Class	CSR	Com
507	Canisteo clay loam, 0 to 2 percent slopes	Green	61.7	40.4%	IIw	78	167
55	Nicollet loam, 1 to 3 percent slopes	Light Green	27.3	17.9%	I	88	185
138B	Clarion loam, 2 to 5 percent slopes	Yellow-Green	24.4	16.0%	IIe	80	171
138C2	Clarion loam, 5 to 9 percent slopes, moderately eroded	Yellow	10.8	7.1%	IIIe	64	160
95	Harps loam, 0 to 2 percent slopes	Light Yellow	8.6	5.6%	IIw	62	151
6	Okoboji silty clay loam, 0 to 1 percent slopes	Yellow	5.5	3.6%	IIIw	57	140
90	Okoboji mucky silt loam, 0 to 1 percent slopes	Light Yellow	5.4	3.5%	IIIw	59	145
655	Crippin loam, 1 to 3 percent slopes	Light Green	4.5	2.9%	I	83	176
221	Palms muck, 0 to 1 percent slopes	Orange	3.3	2.2%	IIIw	49	140
107	Webster clay loam, 0 to 2 percent slopes	Green	1.4	0.9%	IIw	83	173
<b>Weighted Average</b>						<b>76.4</b>	<b>168</b>



## Accounting by Soil Type

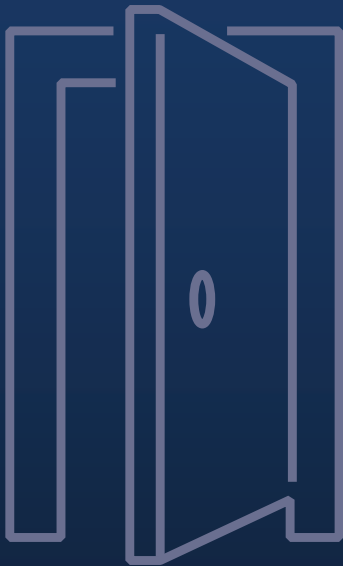
- As big data gets better, successful farmers will specifically allocate income and expense down to the soil type level
  - Variable rate seeding
  - Variable rate fertilizer
  - Yield map data
  - Drones



## Why?

- The soil type level enables the farmer to have the most accurate level of profitability detail
  - How does my profit change with variable rate seeding and fertilizer for each soil type
  - Ability to plant two hybrids at the same time
  - No longer will the farmer look at the field as his unit of production – rather the soil type within the field will become the base





## Conclusion

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