

Part II – Analyzing Performance of Manageable Segments of the Business

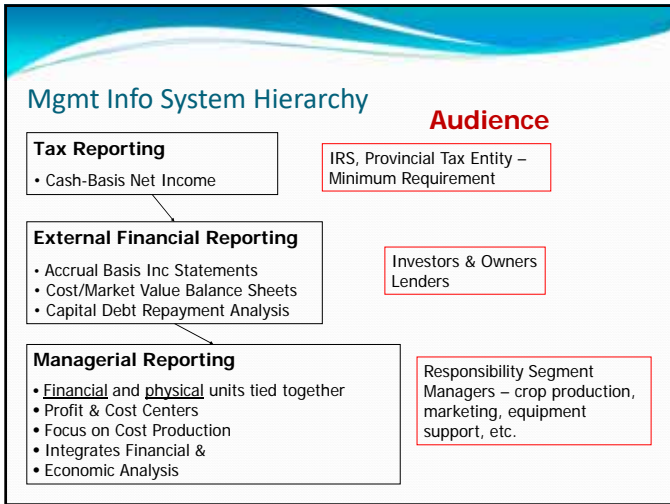
Drilling Deeper into Financial Performance The Essence of Management Accounting

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Relationship: DuPont Model to Managerial Accounting

- Financial ratio analysis provides “whole farm business” perspective
- Managerial Accounting goes to next level
 - Responsibility centers
 - Drives to “heart” of decision-making processes
 - Answers more clearly “cause-effect” of strategic & operating decisions

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Key Questions of Decision Makers

- Margin in each profit center
- Cost of production compared to:
 - My peers, or my own historical trends
- How cost and margins impacted by:
 - Tillage, genetic or production strategies
 - Growth in the business
 - Price & yield variability
 - Key input cost trends
- How capital asset use efficiency affects ROE

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Farm Financial Standards Council Managerial Accounting Project – 1998-2002

- National guidelines for managerial accounting
- Goal: consistent approach for
 - Calculating total Cost of Production
 - Assessing performance of manageable segments
 - Benchmarking and peer group comparisons

WEBSITE: [www: ffsc.org](http://www.ffsc.org)

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Implementation Topics

- Sorting out Accounting and Economic Analyses
- Identifying manageable segments
- Profit/Cost center design
- Handling unusual transactions – cost recovery, revenue adjustment
- Integrating financial and physical quantities (\$, bu, acres, employees)
- Definitions: Direct vs indirect; variable vs. fixed
- Transfer pricing
- Alternatives for allocating indirect costs/overhead
- Other technical issues
 - Inventory valuations
 - Equipment gains/losses
 - Tax vs. Book Depreciation
- Case studies of sample farms

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Key Management Question

“How can **managerial accounting** be used to measure the impact of **strategic decisions**?”

...primer for later session on Strategic Planning

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5 Steps to Strategic Management

- **Step #1** – Analyze costs and activity in each management activity center
- **Step #2** – Identify strategies that influence performance
- **Step #3** – Simulate impact of alternative strategic decisions
- **Step #4** – Implement high impact strategic options
- **Step #5** – Measure the impact of decisions made

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Strategic Options – Revenue Enhancement

- Adopt technology to improve yields
- Marketing options to maximize price
 - Value-added
 - GMOs
 - Organics
- Off-farm supplementation
- Custom services to utilize underemployed assets, fixed overhead

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Strategic Options - Cost Structure Management

- Strategic Alliances/Joint Ventures-inputs, equipment
- Precision Farming
- Direct Seeding/NoTill
- Optimizing buy, lease, custom hire decisions
- Feed enhancements- rBST, Ralgro
- GMO crops-Bt corn, RR
- Pre-pricing key inputs
- Optimizing in-sourced vs. out-sourced services
- Growth/OH Cost dilution

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Management Accounting Standards CDS Test Drive

- RME Grant ('02-03): 30 growers in info exchange group following similar management practices
- **Goals:**
 - Learn MA concepts/benefits
 - Design MA system to fit how business is managed (segments)
 - Identify cost of production
 - Build benchmarking model
 - Optimize strategic decisions

We learn by doing.



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Expected OUTCOMES from Direct Seeding

- Reduced operating costs
- Increased operating margins
- Improved environmental quality
- Improved capital asset use efficiency

Ultimate Target: Higher ROA & ROE



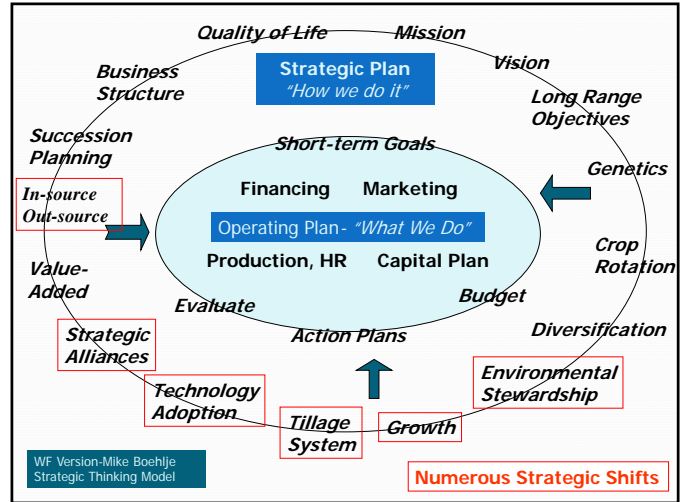
Key Questions:

1. Can we measure impact of strategic decisions?
2. Are we making progress?

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Step 1
Re-think how we organize data

Standardized Profit Center format to organize data

Recommended by Farm Financial Standards Council

Profit Center - Managerial Report Format		Total	\$/Acre	\$/Bushel
1	Commodity Revenue			
2	Production Costs-Direct			
	Seed			
	Fertilizer			
	Chemicals			
	Crop Insurance			
3	Production Costs-Indirect			
	Fuel			
	Repairs			
	Depreciation-Equipment			
	Gains/Losses on Equipment Sales			
	Custom Hire			
	Hired Labor and Benefits			
	Rent/Lease payments			
	Supplies			
	Utilities			
4	Total Dir. & Ind. Production Costs			
5	Production Margin (Line 1-4)			
	Sales, General & Administrative Expense			
	Storage			
	Marketing Costs			
	Freight			
	Management Labor & Benefits			
	Liability Insurance			
	Office Expense & Professional Services			
6	Total Sales, General & Admin Exp			
	Other Expenses & Income			
	Finance Expense			
	Operating Interest			
	Term & R.E. Interest			
	Govt Payments on commodity linked			
	Losses (Gains) on R.E. Sales			
7	Other Expenses (Income)			
8	Total Oth. Expenses & Income			
9	Total Costs (Line 4+6+7)			
10	Operating Margin (Line 1-8)			

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	1996-98	1999	2000	2001
Direct Production Costs	\$93.03	\$82.21	\$98.88	\$107.84
	\$1.29	\$1.14	\$1.11	\$1.20
	Production Costs dropped \$.29/bu - 12%			
Indirect Production Costs	\$92.74	\$85.12	\$97.48	\$96.78
	\$1.28	\$1.18	\$1.10	\$1.08
	SG & A Costs dropped \$.26/bu - 48%			
Sales, General & Admin Costs	\$39.61	\$21.83	\$30.84	\$25.42
	\$0.54	\$0.30	\$0.35	\$0.28
	Finance Costs dropped \$.15/bu - 68%			
Finance Costs	\$15.93	\$10.12	\$9.06	\$6.36
	\$0.22	\$0.14	\$0.10	\$0.07
Total Costs	\$241.31	\$199.28	\$236.26	\$236.40
	\$3.31	\$2.77	\$2.65	\$2.63
	Total Costs dropped \$.68/bu - 21%			
Yield (bu/acre)	73.6	72.0	88.1	90.0

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DuPont Financial Analysis (Review)

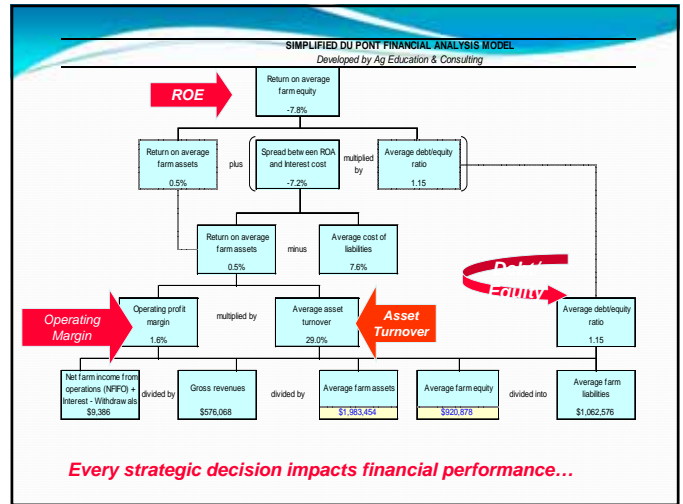
Improvements in capital use and operating efficiency

↑ ROA & ROE

Asset Turnover Ratio x OPM Ratio = Return on Assets

(Return on Assets - [Interest Adjustment] x (Financial Structure)) = Return on Equity

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A Tale of Two Tillage Systems

	Conventional	Direct Seed / NT
ATR	.50 : 1	1.05 : 1
OPM	12.8%	16.3%
ROA	6.47%	17.14%
ROE	3.88%	22.61%

Which set of strategies is more likely to survive?

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How Do We Implement Managerial Reporting?

- Learn core concepts of managerial accounting
- Standardize definitions and methodology
- Work through case studies
- “Test drive” concepts in your business

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Six Core Concepts of MA

1. Requires **cost-based, accrual accounting**
2. Uses **Responsibility Centers** (manageable segments) for accumulating and summarizing transactions
3. Integrates **production factors** and **financial measurements** (i.e. /cwt, /bu)

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Six Core Concepts (cont'd)

4. Core transactional information is accumulated, then supplemented with economic analysis
5. Follows GAAP, commercial industry practice, multi-commodity applicability
6. Must accommodate multiple period production cycles – (crop, livestock, perennials)

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Major Benefits from MA

- Identifies Unit Cost of Production (UCOP)
- Assess activity and performance of center managers
- Isolate strategies to improve business performance
- Enables real-time **WIP and Inventory Valuation system**

→ monthly financials more useful for management interpretation compared to cash to accrual practice.

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Monthly Records Using Accrual Adjusted Accounting

Month	Monthly Net Income	Year to Date Net Income	YTD NI as % of Tot Yr NI	Month End Net Worth	% Change from Beg NW
Beg of Yr				\$ 376,334	
January	\$ 22,419	\$ 22,419	23.6%	\$ 398,753	6.0%
February	\$ 25,205	\$ 47,624	50.1%	\$ 421,959	12.1%
March	\$ (28,781)	\$ 18,843	19.8%	\$ 393,177	4.5%
April	\$ (132,953)	\$ (114,111)	-120.1%	\$ 211,298	-43.9%
May	\$ (14,732)	\$ (128,842)	-135.6%	\$ 196,566	-47.8%
June	\$ (81,326)	\$ (210,168)	-221.2%	\$ 115,240	-69.4%
July	\$ (27,570)	\$ (237,738)	-250.2%	\$ 87,670	-76.7%
August	\$ 112,079	\$ (125,659)	-132.3%	\$ 199,749	-46.9%
September	\$ 151,387	\$ 25,727	27.1%	\$ 351,136	-6.7%
October	\$ 6,135	\$ 31,862	33.5%	\$ 357,271	-5.1%
November	\$ (230,138)	\$ (198,276)	-208.7%	\$ 122,133	-67.5%
December	\$ 293,283	\$ 95,007	100.0%	\$ 474,453	26.1%

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Definitions – Cost Categories

Depends on behavior of cost and what drivers change cost

- Direct Cost – cost item identified with single cost object
- Indirect Cost – cost item common to two or more cost objects; can't be identified with one cost or profit center

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Fixed vs. Variable Costs

- **Fixed Costs** – remain static for the production cycle regardless of production level or base units
- **Variable Costs** – increase or decrease proportionately with changes in base units of production
- **Fixed and Variable Costs** can be both direct and indirect costs (Examples: fuel, rental expense, etc)

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Cost versus Expense

- Cost is associated with building an asset value (inventoriable or capitalizable)
- Expense doesn't "build value"
 - Period Expenses: Interest expense, marketing costs, transportation, etc.

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Handling Unusual Transactions

- Integrity of MA System keys on proper handling initial transaction
- Ask: Is transaction revenue, cost, revenue adjustment, or cost adjustment?
- Examples: Handling Unusual Transactions
 - Refer to FFSC MA Guidelines www.ffsc.org
 - Have bookkeeper download or acquire copy

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Case Illustrations Unusual Transactions

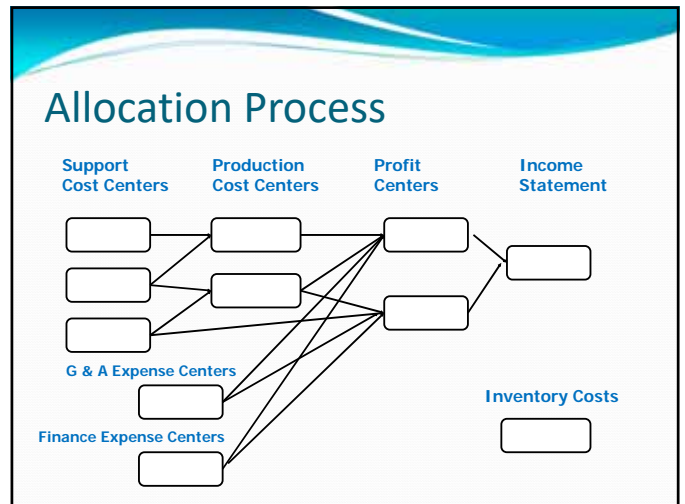
- Case A – Equipment Rental Income
- Case B – Custom apply & re-sell fertilizer
- Case C – Sell surplus machinery repair parts
- Case D – Receive Yr-End Quantity Discount
- Case E – State/Federal fuel tax refunds
- Case F – Sale of raised wheat for seed
- Case G – Custom haul grain for landlord, neighbor

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Center Types

- Production (production stages, activity sequences)
- Support Operations
- Sales, General and Administrative (SG&A)
- Financing

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Deciding Centers to Track

- Management intent
 - For profit
 - Cost of doing business
- Management behavior expected of center managers
- Threshold of activity to justify tracking performance
- Question: When is it a profit vs. cost center?
 - Hay or corn
 - Custom trucking or fertilizing

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Allocation Procedures

- Define best objective and measurable manner in which one cost center supports another cost or profit center
- All cost centers ultimately are allocated to profit centers
- Keep product costs and period expenses separate
- Do not allocate SG&A and Financing to production focused cost centers—period costs are not capitalized in inventory

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What is Transfer Pricing?

- Situations where applies
 - Inter-entity transactions
 - Enterprises transfers – costs & revenues
 - Examples:
 - Raised grain fed to livestock enterprise
 - Raised grain used for seed
 - Rental house used for farm laborer
 - Beef provided to employees
- Pricing SOP to use when transferring cost
 - Arms length pricing?
 - Cost or market value?
- Importance of consistency when recording entries

...who's ready to DEBATE???

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Spread-N-Grow Case Study*

- **Goal:** Design profit, cost and support centers for diversified farm with custom enterprise
- Unique features:
 - Multiple crop enterprises + custom operation
 - Distinctly separate accountability roles
 - All managers desire improved information
 - Management accounting system mirrors management structure of business

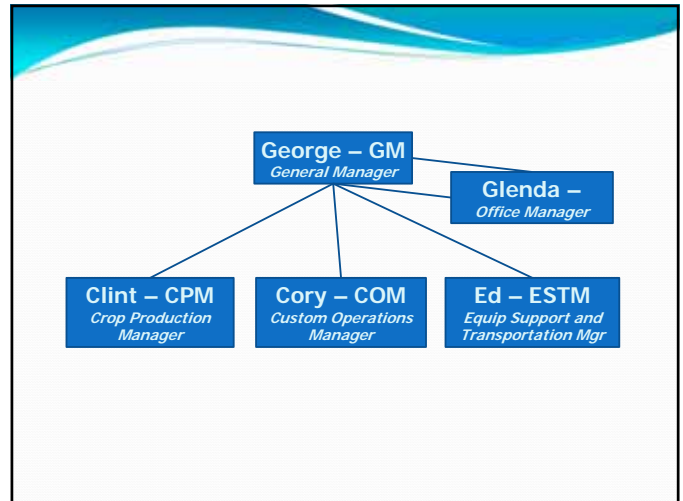
* 1 of 4 FFSC Case Studies

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Operational Data

- 6,000-acre diversified farm – wheat, barley, and canola under direct seed/NT program
- Gross revenue = \$1,350,000 (3 yr ave.)
- Custom seed 2,500 acres @\$25/acre
- Custom fertilize 5,000 acres - \$300,000 revenue generated from application and fertilizer sales

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Management Intent

- Manage three commodities and custom application as “for profit” enterprises
 - Criteria: significant activity to manage & opportunity to control performance
- Custom trucking – incidental income viewed as “cost recovery” to reduce net cost of equipment support

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Special Areas of Management Concern

- Marketer: determine cost of production to develop more sound marketing plan
- Crop Manager: identify how production costs compare with historical cost trends
- Equip Support Manager: determine how direct seeding compared to conventional tillage impacts production costs

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Case Solution – Profit Centers

- Four profit centers
 - Wheat
 - Barley
 - Canola
 - Custom Application
- Ruled out custom trucking – not significant activity managed “for profit”

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Cost/Expense Centers

- Production Cost Centers – set up one for each crop enterprise to accumulate work-in-progress costs
- Support Cost Centers
 - Equipment Support
 - Labor
 - General Farm
 - Land Cost Center
- SG&A* & Finance Expense Centers

* SGA = Sales, General and Administrative Expense

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Production Cost Center

Report Design (same for Wheat, Canola, Barley)

Revenue/Cost Recovery

- Grain by-products, straw

Production Costs

Direct Costs

- Seed
- Fertilizer
- Chemicals
- Crop Insurance

Indirect Costs

- Costs Allocated from *General Farm Overhead Center*
- Costs Allocated from *Equipment Support Center*
- Costs allocated from *Labor Support Center*
- Costs allocated from *Land Cost Center*

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General Farm Overhead Cost Center

Report Design

Revenue/Cost Recovery

- Coop Dividends – Supplies

Production Costs

Direct Costs

- Labor and Benefits (*include here or in separate Cost Center?*)
- Utilities
- Supplies
- Fuel – (*non-farm related, i.e. boss's pickup, wives and kids*)

Indirect Costs

- *No transactions likely to come as indirect allocation to GFO*

Allocation Criteria

Allocate to Wheat, Barley, Canola, & Custom Application

Use a two-step staging of allocation rules:

1. Allocate between custom application and grain
2. Allocate portion going to each grain crop by pro rata share of acres in each crop

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Equipment Support Cost Center

Great report for peer comparisons!

Revenue/Cost Recovery

- Gains (Losses) on Equipment Sales
- Custom Trucking Income

Production Costs

Direct Costs

- Fuel
- Repairs
- Depreciation (Mach & Equip)
- Property Taxes (Equipment)
- Custom Equipment Hire
- Equipment Rental Expense

Indirect Costs

- General Farm Overhead (allocated from GFO Cost Center)
- Labor (allocated from Labor Center)

Allocation Options:

Use standard rate for assigning costs to custom farming; allocate balance of costs to crop enterprises on pro rata basis

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Land Cost Center*

Revenue/Cost Recovery

- Gains (losses) on sale of real estate
- Land rental income
- Fixed government payments – base related

Operating Costs

- Cash Rent
- Repairs Costs – Building & Improvements
- Real estate taxes
- Fire & Liability insurance – Fixed Improvements
- Professional fees – land management fees, lease renewal fees and transaction costs
- Property management fees

Allocation Method: Allocate to crop production cost centers based on % of farm in each crop

* Controversial concept still being debated

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Custom Application Profit Center

Revenue

Custom Seeding Income	\$xx,000
Custom Fertilizer Sales	\$xx,000

Production Expenses

\$xx,000

Direct

Custom License Fees	\$xx,000
Cost of Fertilizer Resold	\$xx,000

Indirect

Gen Farm Overhead (<i>allocated from GFOH center</i>)	\$xx,000
Equipment (<i>allocated from Equipment Cost Center</i>)	\$xx,000
Labor (<i>allocated from Labor Support center</i>)	\$xx,000

SG & A - allocated

\$xx,000

Finance – allocated

\$xx,000

Net Profit – Custom Application **\$xx,000**

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Implementation Conclusions

#1 Bigger job than most realize

- Few have adequate foundation (skills or practices) to implement MA
 - Accrual understanding; cost vs. market values
 - Ratio analysis
- Full implementation will likely involve
 - Developing skilled CFO (internal or outsourced)
 - Major change in accounting software design & implementation

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Implementation Conclusions

#2 MA design should mirror business management structure

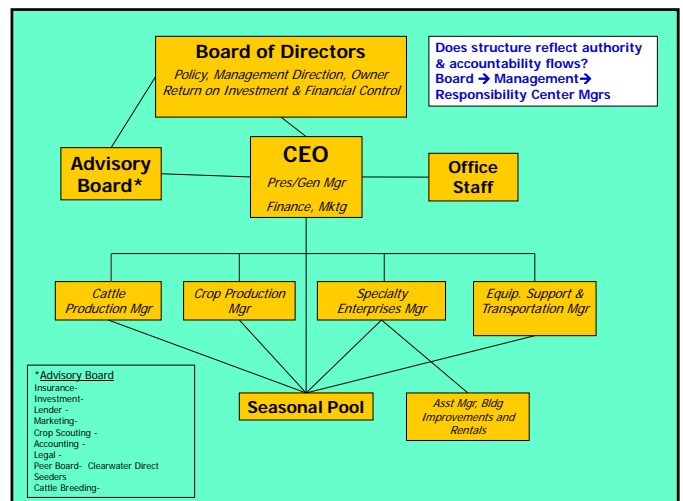
- MA core premise: desire to measure performance by manageable segment
- Attempts to implement MA expose poorly delineated accountability
- MA provides a “teachable moment” for re-evaluating personnel management
 - Look at Organization Chart & Center Design

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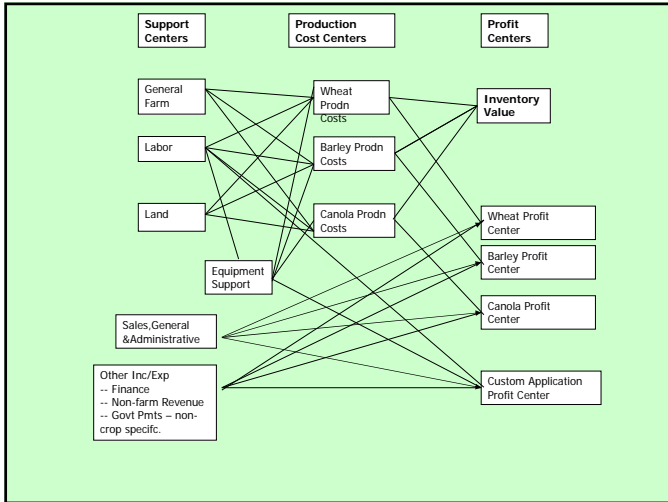
Responsibility Center Managers



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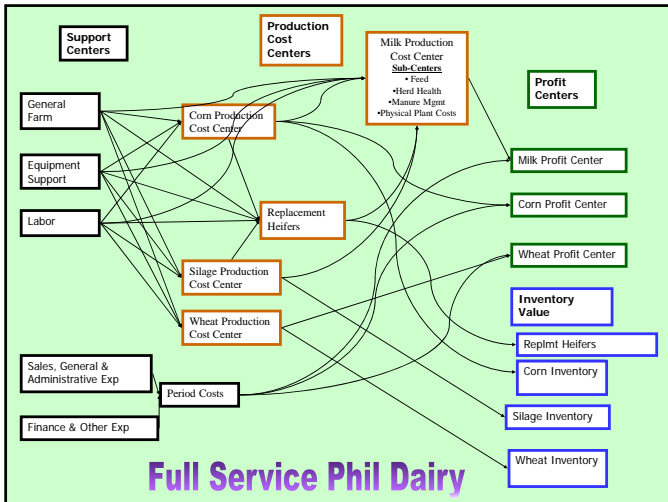
FFSC goal: Expand application models for other ag industries

MA Center Designs for DAIRY

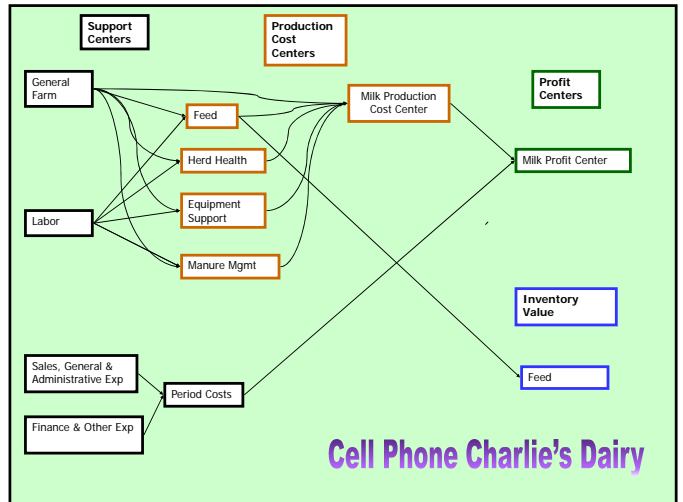
Two Extreme Cases:

- Full Service Phil
- Cell Phone Charlie

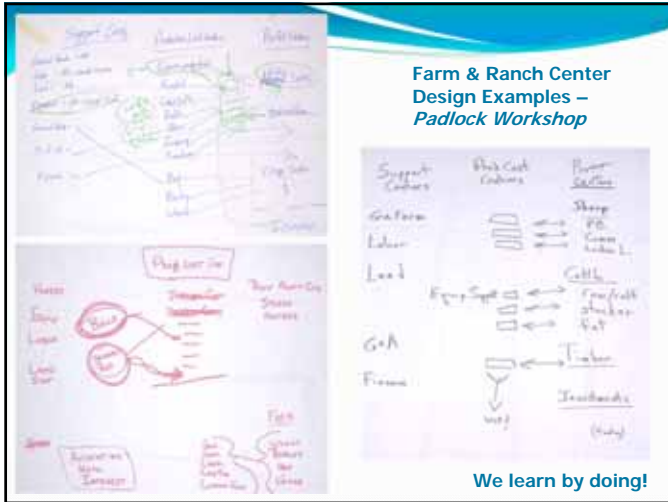
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PDPW Workshop 9-10-08 Cost & Profit Center Designs



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2014 MA Workshops – AAPEX Alumni – Dallas and Chicago



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Report Design: Replacement Heifers Cost Center (100 hd)

Revenue/Cost Recovery	Total \$	\$/Head
	\$	\$
• Calf Sales -		
Operating Costs - Direct		
• Purchased calf -	\$ _____	\$800.00
• 1 st 140 days @ \$2.20/day	_____	308.00
• 2 nd 540 days @ \$1.65/day	_____	891.00
• Final 55 days @ \$2.50/day	_____	138.00
• Cost of raised feed/pasture	_____	
• Vet & medicine	_____	
• AI expense	_____	?
• Calf barn feeding	_____	
• Bedding -	_____	
• Death Loss - 5%	_____	70.00
Allocated Costs		
• Insurance, repairs, utilities - OH	_____	0.00
Total Costs →	\$ _____	\$2207.00 +\$1,300

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Implementation Conclusions

#3: Peer Group Benchmarking is secondary benefit

- Benchmarking billed as key reason for MA
- Loses importance once get into process
 - Too many variations in structure, strategy, enterprises, and methods of operation
- **REAL VALUE:** comparing current to past trends in same operation ... examine how strategic shifts can enhance performance in the future.

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Implementation Conclusions

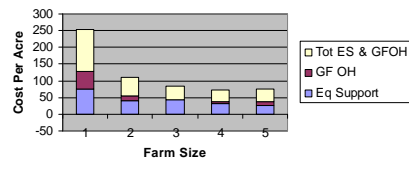
#4: Cost Management is "land of opportunity"

- Historical focus on revenue enhancement
 - Milked cow 'til it is dry!
 - Government bailouts less helpful
- Big opportunities lie in managing costs - direct vs. indirect (overhead) costs
- Segment analysis helps identify problems and opportunity areas ...
 - focus on bottom line doesn't tell us much



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Overhead Comparisons - 5 Grain Farms



Farm Size	Equip Support	General Farm OH	Tot ES & GFOH
1123	74.95	52.17	127.12
2100	41.09	13.78	54.87
2198	42.57	-0.44	42.13
4013	30.27	5.89	36.16
4126	25.24	12.04	37.28

How do you stack up against your competitors?

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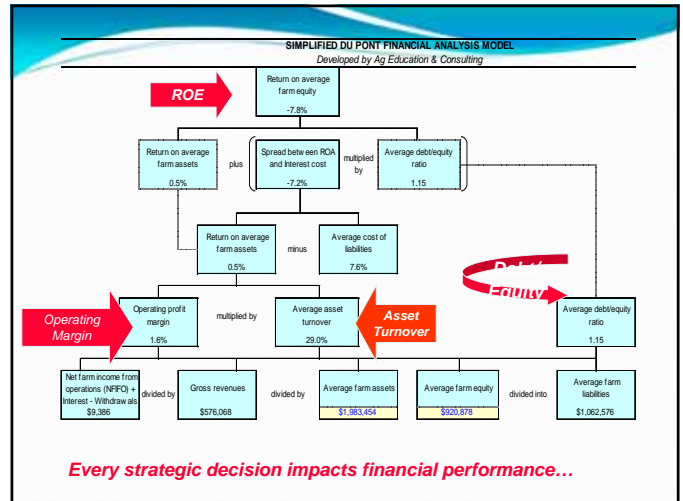
Implementation Conclusions

#5: What carrot motivates implementation of MA?

- NOT satisfaction of doing cost and profit center reports!
- MA helps identify strategies to enhance performance in specific segments
- Challenge: how to link *performance analysis* and *strategic management*

→ Dupont Model Simulation experience demonstrates this visually and vividly

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Dupont Model – Simulation Exercise

Review Cases A – D; test data

Test Alternative Strategies

1. Identify strategic shift
2. Develop \$ changes in operation
3. Enter revised \$ compared to baseline (Case A)
4. Record data changes and revised ratios on worksheet.

Data Set	Case A	Case B	Case C	Case D	Case E	Case F
Revenue	\$776,000	\$883,600				
Variable Oper Costs	499,000	548,900	449,100	495,000		
Fixed Op Cos	95,000			85,000		
Interest Costs	78,000			64,000		
Net Farm Income	104,000					
Labor/Mgmt W/D	60,000					
Average Assets	1,800,000			1,600,000		
Average Liabilities	1,000,000			800,000		
Average Equity	800,000					
OPM	15.7%	17.5%	22.2%	17.5%		
ATR	43.1%	47.4%	43.1%	48.5%		
ROA	6.8%	8.3%	9.6%	8.5%		
ROE	5.5%	9.0%	11.7%	9.0%		

Case A – Baseline data is for mixed grain and livestock operation summarized from balance sheet and income statement. In this strategic shift gross farm revenue and variable operating costs both go up 10%.

Case B – Increase throughput by 10%. Possible ways to do this: Feedlots-more inventory turns; farming-increasing base production units (acres, head, etc.); processing plants-more shifts; longer hours

Case C – Decrease operating costs by 10%. Potential ways to do this: minimum/NT, pre-buying strategies (fuel, fertilizer)

Case D – Reduce assets required to produce same revenue. Example: Share ownership of drill & power unit. Financial impacts: Assets & debts -\$200,000; Depreciation -\$10,000 (Fixed Costs); Variable Oper Costs -\$4,000; Interest Costs -\$14,000.

Management Accounting allows analyst to build new level of performance analysis at the base of the Dupont Model

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#6: It's OK to be "half pregnant" in MA implementation

- Purists say MA is "all or none"... **I disagree!**
- Accumulating inventory costs on balance sheet IS ideal...but not only worthwhile goal.
- Major value in taking "baby steps"
 - Revisiting ratio analysis
 - Standardizing cost & profit center reports
 - Differentiating direct and indirect costs; allocations
 - Accumulating direct costs in WIP
 - Isolating manageable segments that people manage
 - Handling unique transactions to insure integrity of reporting

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#7: MA can change marketing management behaviors

- Helps identify cost of production
- Can set price targets and execute marketing strategies tied to profit margin objectives
- Alternative is: Market based on “hope”...
 - That selling price covers costs
 - That you hit top of market (whatever that is...)

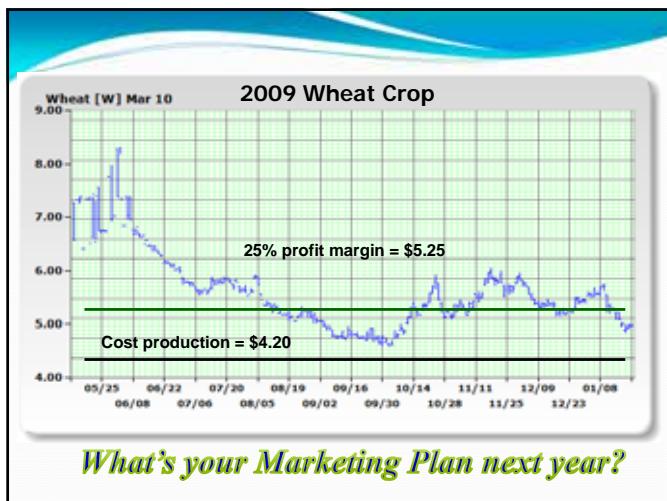
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How would you feel about a 25% income margin?

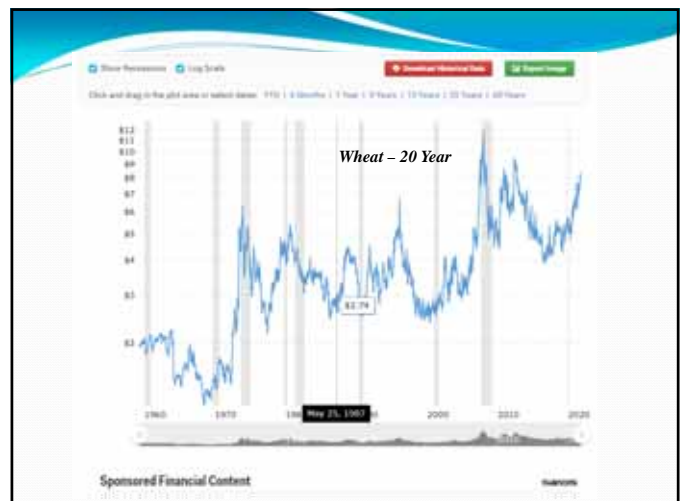
...keep in mind

Historical operating profit margin (OPM) = 17-18%

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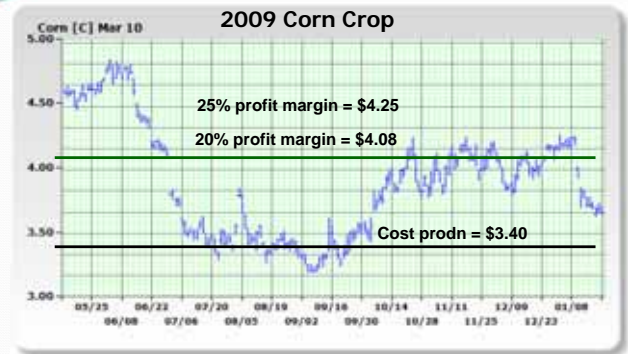
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What is connection – price trends vs. cost of production trends

- Look at PNW Wheat producer data
 - 2002 \$3.56
 - 2012 \$5.86 +65%
 - 2022 \$7.04 +20%
 - 2023 \$7.16 +2%

[...\\CONS\Management Accounting\Cost of Production Trends-2023_Schulteis.xlsx](#)

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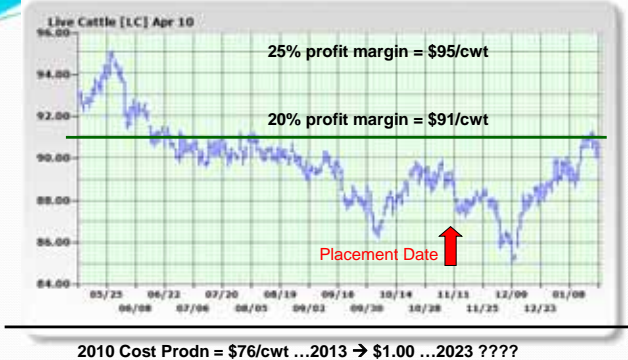
What about 2022-23?

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Source: CME, Gulke Group – Top Producer Aug/Sept 2022

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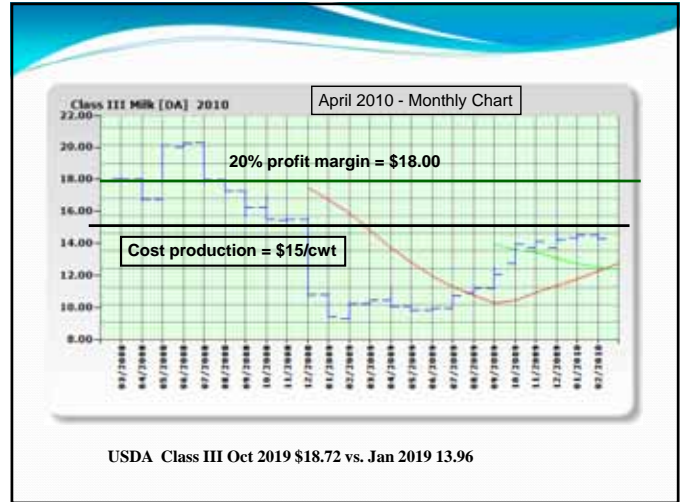


How does this affect Future Marketing Plan?

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#8: Developing adequate computer software is critical

- Software vendors actively engaged in MA debate...some more than others
 - Red Wing, FBS, AgManager, Quickbooks
- Producers will find most current software inadequate to do MA properly & efficiently
- ??? What are farmers using....

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Accounting Software Users*

- 47.8% - Quickbooks and Quickbooks Pro
- 12.0% - Red Wing/Centerpoint Accounting
- 4.7% - Farmworks
- 3.6% - Quicken
- 3.0% - FBS Systems, Ag Base/AgriSolutions
- 1.9% - Peachtree
- 1.7% - Famous, PC MARS, FINPACK
- 25% - 16 Other software systems

Can software generate management information beyond basic financial reporting?

*Based on TEPAP surveys 2003-2023

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Detail Needed for Tax Reporting, MA and Production Mgmt – *The Integration Challenge*

Basic Transaction Data to file a Tax Return

- Date
- Bank account affected
- Vendor/customer name
- Transaction no.
- Account assignment (asset, liability, equity; income, expense)
- Amount
- Memo/Notation

Additional Data needed for Unit Cost of Production (UCOP) & Mgmt Acctg Reporting

- Units/Quantity
- Responsibility Center
 - Cost Center; Profit Centers
- Production Year
 - As separate field
 - Use date range to select
- Production Center/Location

Agonomic/Livestock Data

- Soil types & tests
- Prescriptions-VRA maps
- Crop input records
- Field activity records
- FSA compliance info (acres, owners, crop share, farm-tract-Fd#, legal descriptions/location)
- Crop Insurance/RMA
- Inventory management and storage locations; grade attributes by commodity
- CCC loan information
- Pasture treatments /AUM use

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Farm computer and software journey – why I have no hair!

- 1972 – hired by FCS to implement new MIS – 4/12 Western FCS Districts
- 1973-83 – kept farm books on Agrifax (Single Entry Accounting) “for free”
- 1983 – Agrifax gone by 1983; Purchased Apple 2e – 64k with Applewriter, Visicalc, Dbase II, also beta tested – Data Director – Ag DBM program
- 1984 – DEC Rainbow to run Countryside Data accounting package, dual CPM/PCDOS, Word Perfect, Lotus, dBase III – crude but highly innovative accounting package; cash/accrual, enterprise tracking, etc. CPM dead horse
- 1988 – bought IBM clone to run Harvest Horizon (single investor/developer-Gary Randolph-Indiana farm boy); DOS platform; incorporated FFSC guidelines; best accounting functionality in industry.
- Mid-90’s experimented with FarmWorks; eventually became primary field records tracking software and driver for precision ag operations
- 1999 Dell to run Perception Accounting, Windows platform replacing merger of Horizon and FMS software → transitioned to Red Wing Centerpoint
- 1998-2000 Shelved FarmWorks and experimented with EasiCrops as beta site;
- 2002 – back to FarmWorks for field records; yield maps and precision ag
- 2012 – began relationship with Granular as consultant and beta test site; Granular is now primary field records ERP program

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Lessons Learned – As Software User & Educator

- Never paid for ag software
- Beta testing software NOT bargain but has benefits!
- Software doesn’t MAKE you an accountant—you need education and skills to use software successfully
- Most who say software “doesn’t work”
 - don’t have skills to run it
 - don’t take adequate time to get trained on how to use it
 - don’t invest in support/mentoring to set it up correctly
- Having ability to “convert” data is over-rated
 - Old database often inconsistent with good accounting standards (chart of accountant, enterprise structures, cost/profit centers)
 - Better to start fresh and set things up right

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Differences – Enterprising vs. MA

- Enterprising built foundation for MA
- OK for investors, bankers & 1-horse management team...not Responsibility Center Managers
 - Investors & bankers concerned about “bottom line”
 - Managers concerned about responsibility areas
 - Goals, decision-roles, strategies, resources
 - Performance results, cost management

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MA not “new revelation” Why such little adoption in AG?

- Past margins allowed SLOP...didn't force focus on costs...declining farm margins FORCING new attention
- CASH ACCOUNTING convenient, but set industry backward for looking at accrual performance
- Whole entity analysis has dominated attention of lenders and educators

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Building Blocks – MA Implementation

1. Evaluate capacity of accounting system to provide accrual income and cost/MV balance sheet
2. Review FFSC Guidelines; audit compliance of reporting formats and analysis methods
3. Complete 5-year trend analysis & ratios
4. Simulate alternative operating/strategic shifts
 - analyze impact on OPM, ATR, ROA, ROE

It's like climbing Mount Everest...

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Building Blocks – cont'd

5. Identify manageable segments – clearly assign accountability to segment managers
 - Organization chart, job descriptions, reporting relationships
6. Complete compensation summary (Salaries, benefits)...key tool in analyzing overhead
7. Set performance benchmarks for employee performance measurement



2017 TEPAP Student (Jason Fox) preparing to climb Mt. Everest

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Building Blocks – cont'd

8. Standardize use of terms: direct vs indirect; fixed vs variable; cash vs accrual vs economic analysis
9. Review sample cases: management intent; types of cost & profit centers; MA center design solutions
10. Identify areas/practices for handling transfer pricing on your farm – develop MA solution
11. Define cost and profit centers needed to aggregate your farm's transactional data
12. Complete cost and profit centers for historical data using FFSC formats; then move to current year data

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MA Wrap-Up Quiz

- What is the cost/unit to produce each commodity?
- How have costs changed in the last 5 years?
- What are the key strategies that will be re-evaluated in the next 1-5 years?

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