

M A N A G I N G

By Dan Looker, Business Editor

YOUR FARM

HELP WITH ACCOUNTING

GREAT RESOURCES ARE HERE. THEY CAN'T LEAP TALL BUILDINGS, BUT THEY COULD STRENGTHEN YOUR FARM.

Economist David Kohl has a striking number in this issue's Q&A (see p. 8). An example of how things are better since the credit crisis of the 1980s is that as many as 50,000 operations now have good financial records, he says.

That's impressive, but not so much, if you consider how many farms our nation has. The 2012 Census of Agriculture found 2.1 million. Most are small. Yet, even the number of commercial-scale operations may exceed Kohl's count of farms with good records. There are about 168,000. (That's from a 2013 USDA Economic Research Service update of farm types, not the Census. ERS uses gross cash farm income of \$350,000 as a threshold for midsize or large farms.)

It's tempting to assume that only farms at the smaller end of that commercial scale need the help. That's probably wrong.

For 13 years, Idaho farmer and rancher Dick Wittman has taught managerial accounting (MA) at TEPAP (The Executive Program for Agricultural Producers). MA is the most useful and accurate way to keep and to analyze records, and TEPAP attracts some of the nation's best managers. Yet, Wittman says, in a questionnaire he gives his class, fewer than 25% say they analyze the ratios generated by such record keeping. In one session, Wittman asked a question on how to convert the cash accounting that's used for taxes to an accrual-adjusted income statement. "In a class of 100 people, only seven got the right answer," he says.

Clearly, a big chunk of production agriculture

needs help, especially with margins tight to nonexistent. For those of you already using an agricultural CPA firm or farm business association, congratulations! You're in a savvy minority. For many others, it's time to call in that mild-mannered superhero: the accountant or farm management specialist.

Wittman favors at least a yearly adjustment to an accrual income statement. Among other things, it shows your real costs, a key first step to better marketing and management. Study the ratios made from the statement.

"If you aren't doing it, you should have your adviser do it every year," he says. "It's not optional to not know this anymore."

You don't have an adviser?

To find one, start by first visiting the website of the Farm Financial Standards Council, the group that evolved from the work of Kohl and others in the 1980s. Wittman is a past president.

You can't go wrong picking from accounting firms and farm business associations listed as the council's executive committee or its partners.

Sound advice isn't limited to that group, of course. Yet, any adviser should be able to do more than prepare taxes, says the council's current president, Jim Kelm, with Dairy Business Consulting in Red Wing, Minnesota. He or she should understand agriculture, Kelm says. "That's more critical in having an adviser who understands farm management and who can interpret ratios."

When considering a CPA, ask for a sample financial statement, suggests Jeff Bushey, managing partner at Nietzsche & Faupel, PC, in Pigeon, Michigan, and a member of the council's executive committee.

Then you can compare that to the guidelines the council recommends for agriculture. The website sells full guidelines for \$18 and has a short, free summary of key ratios.

Bushey also suggests the American Institute of CPAs (which has an agricultural track) and its state affiliates. (Its website isn't geared to consumers, but it has contacts.)

Two other groups that are tied to educators and farmer-owned associations are the National Farm & Ranch Business



FIELD PROVEN Kubota Hay Tools



DM Series Disc Mowers



TE Series Tedders



RA Series Rakes

MANAGING YOUR FARM Continued

Management Education Association, Inc. (NFRBMEA) and the National Association of Farm Business Analysis Specialists (NAFBAS).

Each organization's website lists members and many affiliated groups.

Mark Holkup, a farm management instructor at Bismarck State College in North Dakota, heads NFRBMEA. He sees renewed interest in financial analysis. "I think that while most of the middle-age and older farmers are set and many of the younger ones will likely have no problems, some of the younger folks – if they overextend themselves at all – could have serious problems," he says. "The problems can develop fast with the size of farms today."

NAFBAS includes state farm business associations such as the Illinois Farm Business Farm Management Association, a cooperative educational service.



Dan Looker grew up in Nebraska. He has covered business and policy since 1976.

It, too, uses accrual accounting, says Dwight Raab, the group's state coordinator. "The only thing we do as cash is somebody's tax returns," he

says. FBFM prepares year-end accrual reports that generate a current ratio, debt-to-equity and debt-to-asset ratios, and working capital. Members look at five years of data. "When you put five of those side by side, some trends start to unfold that are really telling," says Raab.

I won't suggest that all of these groups have always been one big happy family. It took years to reach agreement on the standards that most now follow under the council headed by Kelm. The advice of members of any of these groups will be a step up from winging it on your own with QuickBooks and a tax preparer.

In general, farm business associations can offer some valuable benchmarking against your competitors. You'll know if you really are above average. You need to be careful, though, to make sure that the group truly represents your peers. Some ag CPAs, but not all, also offer benchmarking.

One advantage CPA firms offer is a form of financial records that lenders will welcome, especially if you're shopping for a new one.

In deciding to opt for a CPA firm, "size is a factor, along with the complexity in the operation itself and the ownership structure," says Greg Wolf, a consultant with Kennedy and Coe, LLC, one of the nation's largest agricultural accounting firms. Larger operations also have more complex financial reporting requirements from lenders, adds Paul Smith, a CPA with the firm.

What will all this cost? Some private consultants charge about \$90 per hour. Ag CPA firms might charge \$100 an hour, with fees for an annual report and consultation starting at around \$1,500 for a 1,000-acre grain farm with a gross of about \$1 million, running up to \$5,000 for larger, more complex farms.

Wolf says Kennedy and Coe's package of financial services can run around 2% to 5% of revenue. That includes a range of services such as succession planning and farm bill sign-up advice, as well as accounting, he says.

Wolf sees financial challenges ahead that won't surprise any commercial farmer: tighter margins, diminishing revenue along with high capital requirements, and input costs that haven't fallen with prices. All of this will require a level of sophistication "to manage the size and complexity of the businesses that they have," he says.

Listed below are some starting points for your search for outside help.

Farm Financial Standards Council

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NFRBMEA, Inc.

Phone: 507/951-3610

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NAFBAS

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