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A COMPARISON ANALYSIS OF FARM FINANCIAL POSITIONS BETWEEN FARMERS WHO USE THE GUIDELINES AND THOSE WHO DO NOT

**By Mary Catherine Kamer and Dr. Dominique Gumirakiza,
Western Kentucky University
Department of Agriculture**

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INTRODUCTION

- ◉ During the Farm Debt Crisis of 1983-1987 the Agricultural Division of the American Bankers Association wrote a report of the National Commission on Agricultural Finance.
- ◉ This report was designed to standardize many aspects of agricultural finances
- ◉ Mainly to ensure universal accounting standards for farm businesses
- ◉ This led to the creation of the Farm Financial Standards Task Force in 1989 to create Financial Guidelines for Agricultural Producers
- ◉ In 1994 the Farm Financial Standards Task Force's name was changed to Farm Financial Standards Council (FFSC)
- ◉ FFSC's mission is still to create and promote uniformity and integrity in financial reporting and analysis for agricultural producers
- ◉ **The Financial Guidelines for Agricultural Production** (simply called "The Guidelines") provides:
 - Recommended accounting standards for format and content of financial reports,
 - Recommended financial measures (ratios) common to all sectors of agriculture

PROBLEM STATEMENT

- ◎ Several farms fail because of financial challenges
- ◎ Kay, et al., 2015 and Ricketts, 2009 indicated that most agricultural businesses fail due to lack of record keeping and adequate accounting
- ◎ The Guidelines are not commonly utilized by accountants in the agriculture sector
- ◎ The difference (both financial and profitability positions) between the few who use the Guidelines and those who do not use them remains unknown
- ◎ Research studies in this area are very limited

OBJECTIVES

- ◎ This paper determines the extent to which agriculture producers in Kentucky are using the Guidelines and analyzes the effect the use has on farm profitability. Specifically; we sought to accomplish the following:
 1. Determine the extent to which The Guidelines are being used by agriculture producers in Kentucky
 2. Analyze the effects the use has on farm profitability and explain other significant contributing factors

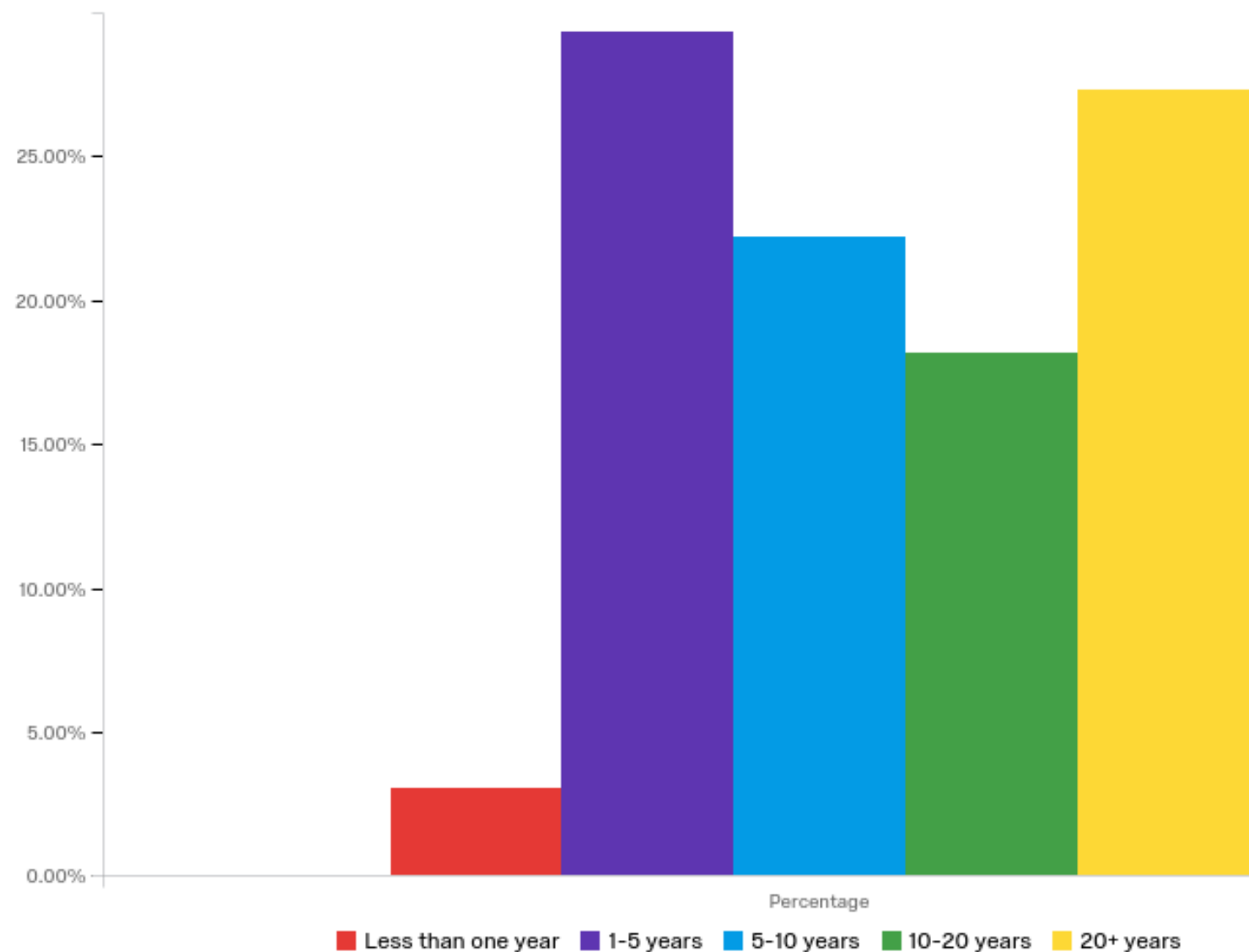
RELATED PREVIOUS STUDIES

- Fischer, Mary. T Marsh. 2013. Biological Assets: Financial Recognition and Reporting Using US and International Accounting Guidance. Journal of Accounting and Finance.
 - http://www.na-businesspress.com/JAF/FischerM_Web13_2_.pdf
 - Agriculture has its own needs in accounting
- Marsh, Treba. M Fisher. 2013. Accounting For Agricultural Products: US Versus IFRS GAAP. Journal of Business and Economic Research.
 - <file:///C:/Users/Catherine/Downloads/7620-30408-1-PB.pdf>
 - Traditional accounting practices can hinder agriculture producers when they are trying to apply for a loan.
 - The development of agricultural accounting practices helps to make the loan process uniform for all producers

METHODOLOGY

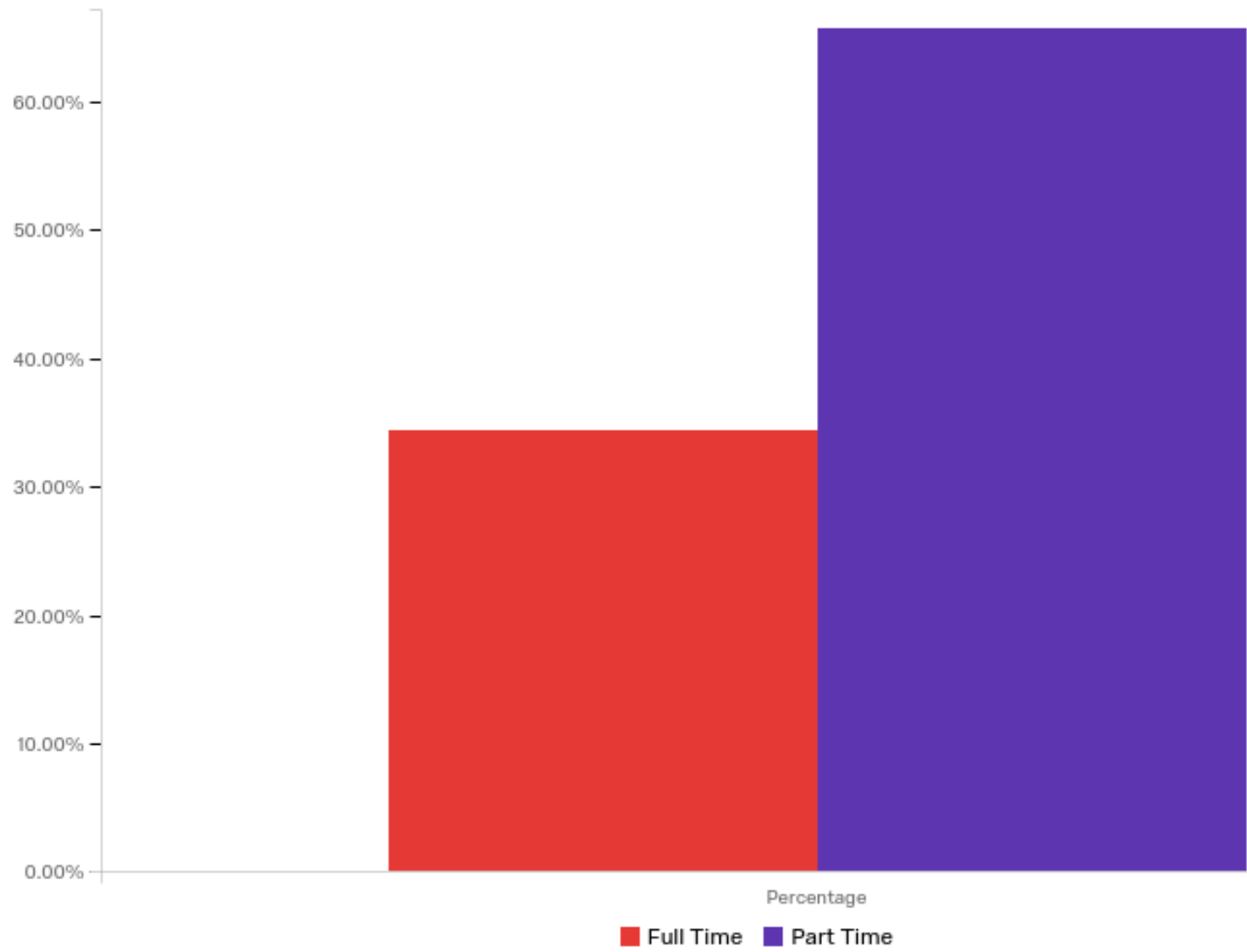
- ⦿ Data was collected in the Summer of 2016.
- ⦿ 650 surveys were mailed to potential participants, randomly selected from the database of agricultural producers who registered with Kentucky Department of Agriculture.
- ⦿ By end of October, we received 100 responses from participants who had the option to fill out the paper survey or answer an online version
- ⦿ A chance to win one of ten \$50 visa gift card was offered to participants of the survey
- ⦿ Descriptive statistics are reported here. Regression analysis will be performed afterwards

How many years have you been operating this farm/ranch?



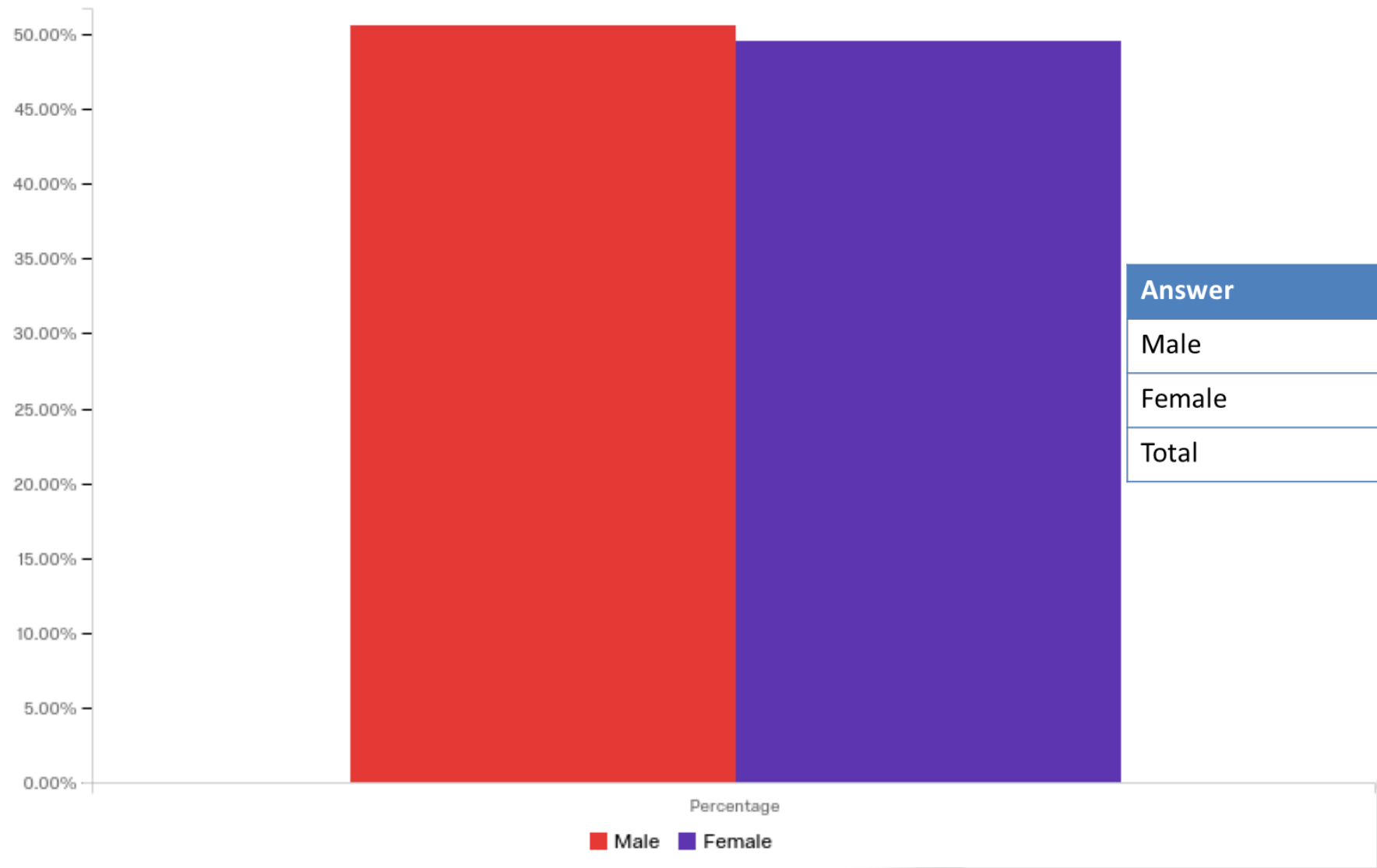
Answer	%
Less than one year	3.03%
1-5 years	29.29%
5-10 years	22.22%
10-20 years	18.18%
20+ years	27.27%
Total	100%

Are you a full time or part time farmer?



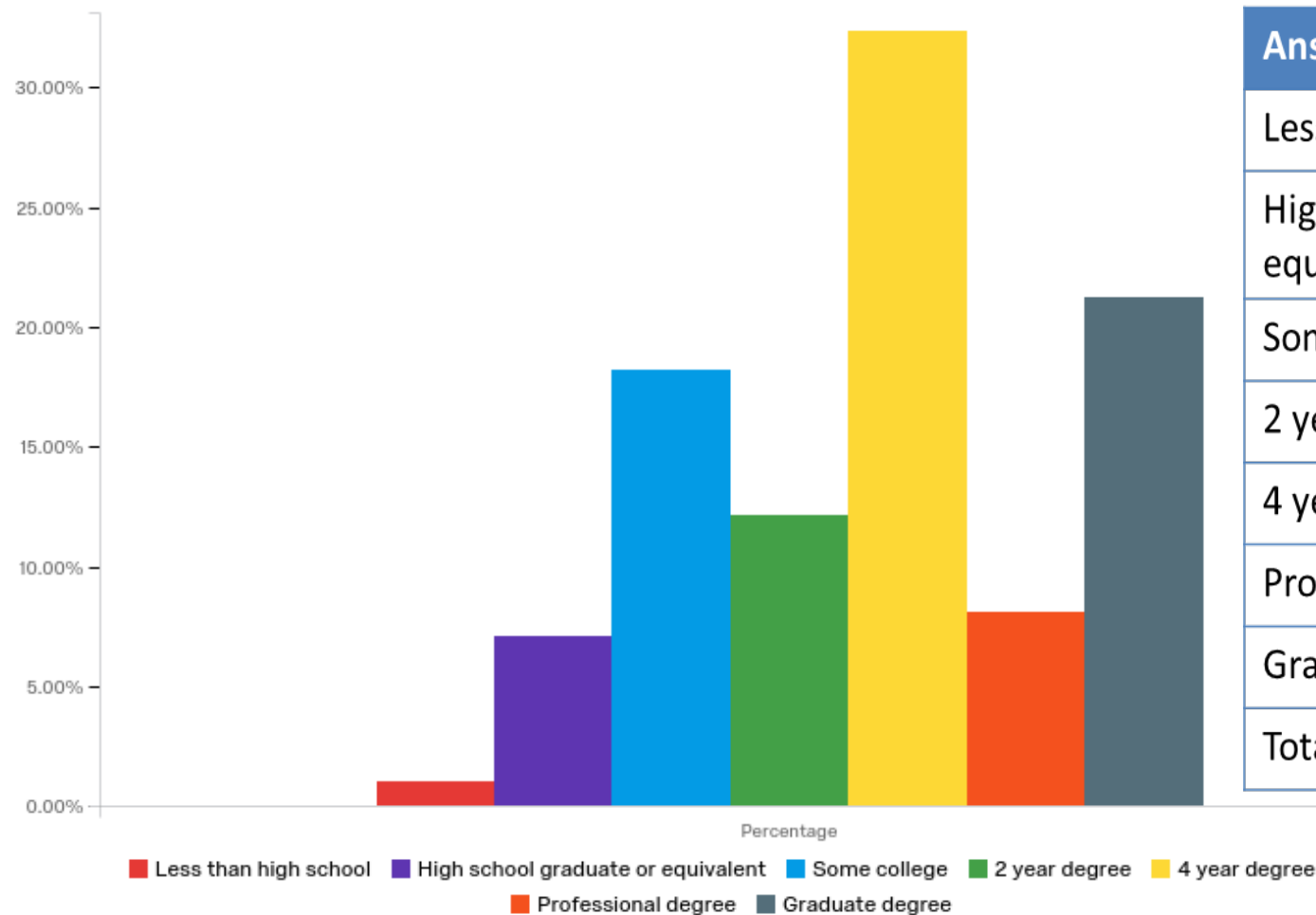
Answer	%
Full Time	34.34%
Part Time	65.66%
Total	100%

What is your gender?



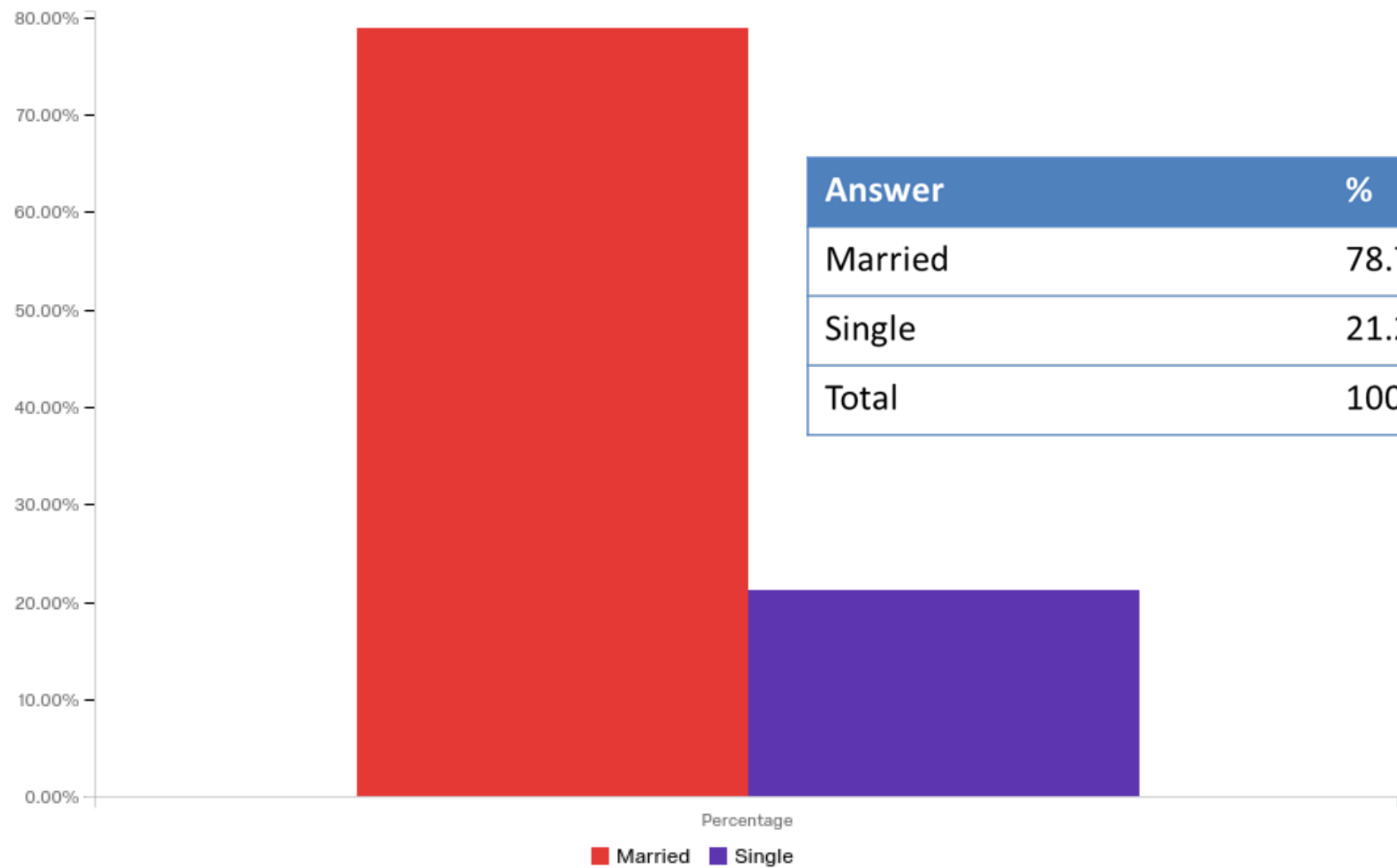
Answer	%
Male	50.52%
Female	49.48%
Total	100%

What is your highest level of education?



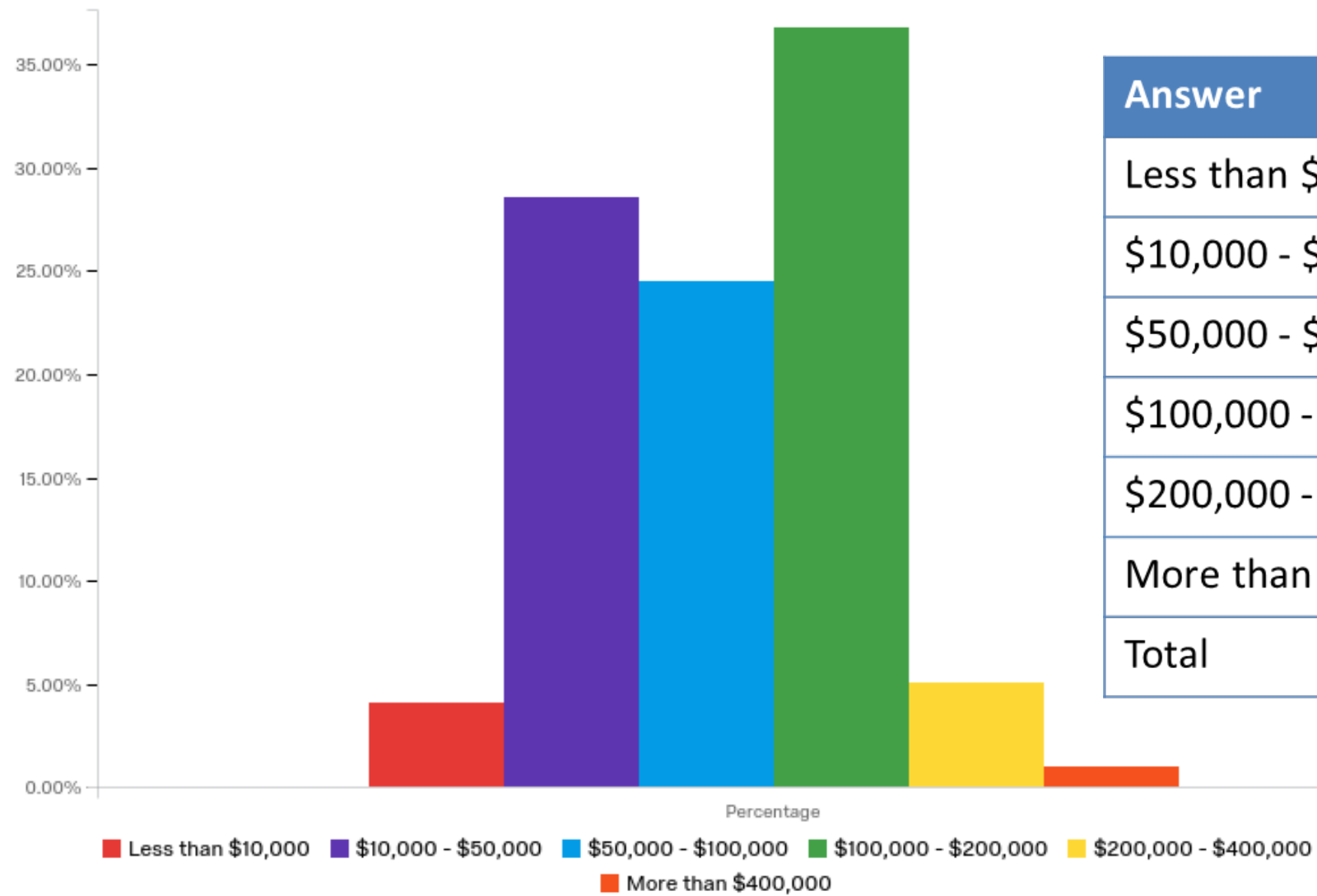
Answer	%
Less than high school	1.01%
High school graduate or equivalent	7.07%
Some college	18.18%
2 year degree	12.12%
4 year degree	32.32%
Professional degree	8.08%
Graduate degree	21.21%
Total	100%

Please indicate your marital status.



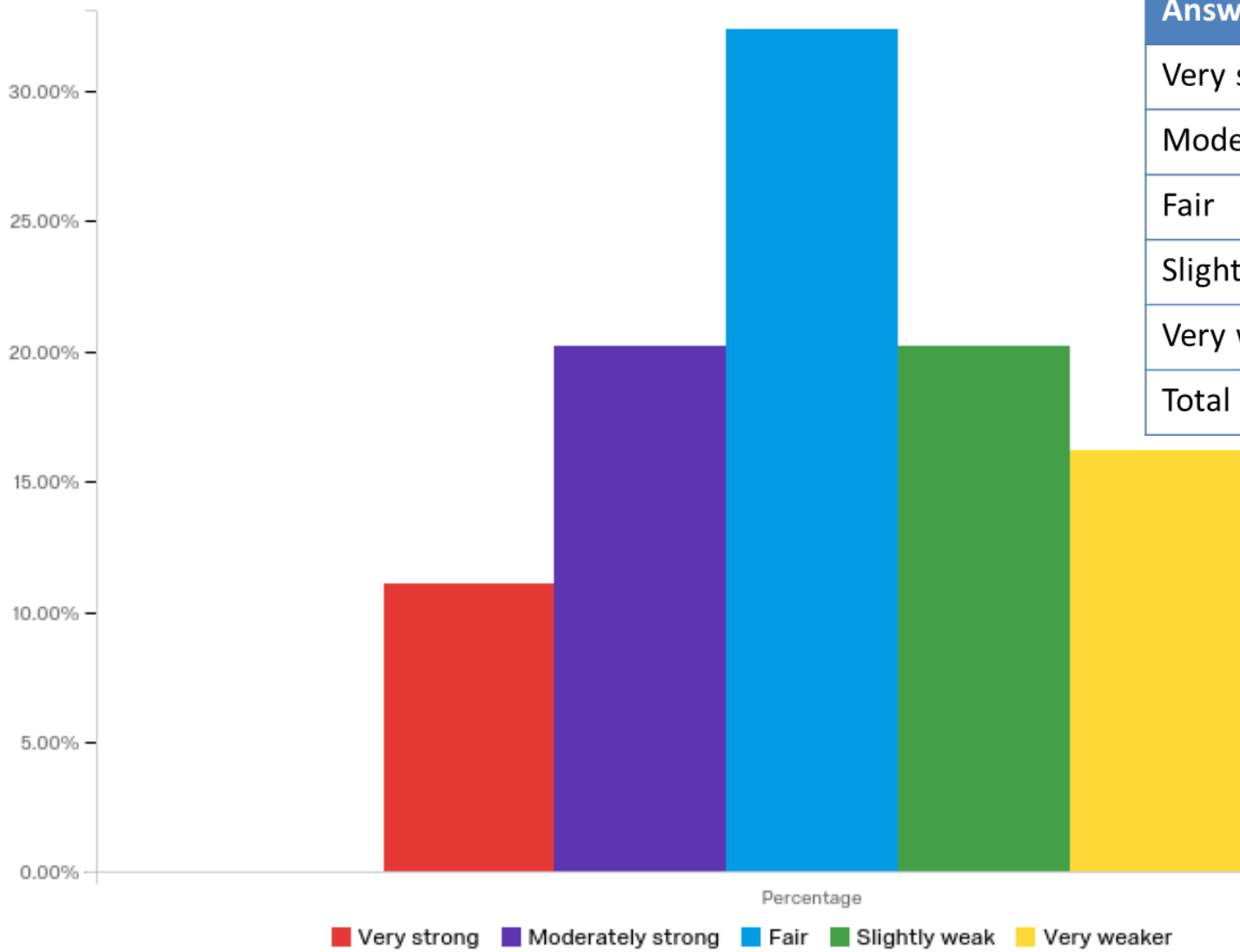
Answer	%
Married	78.79%
Single	21.21%
Total	100%

Please indicate a range that best reflects your household income (including farm income) for 2015.



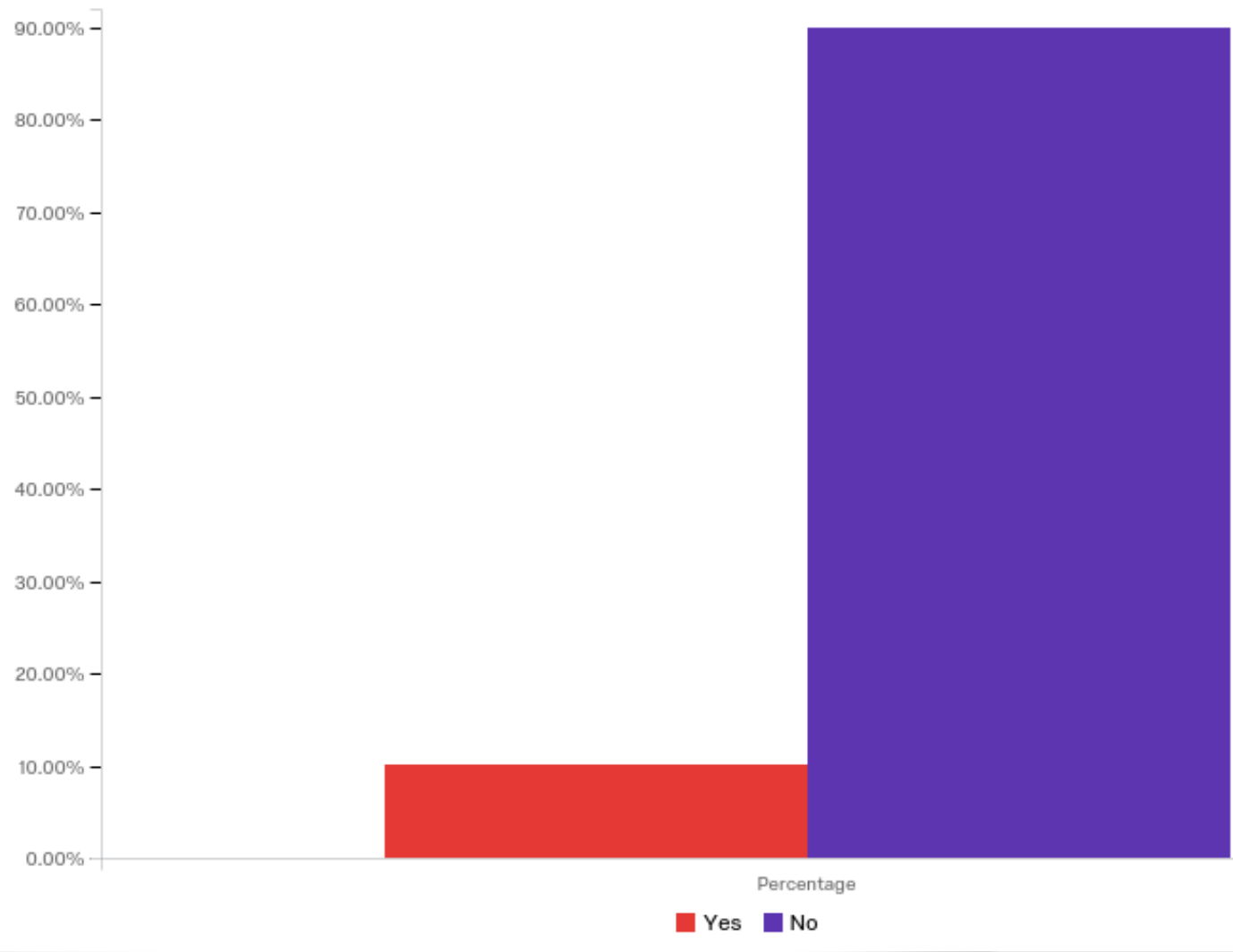
Answer	%
Less than \$10,000	4.08%
\$10,000 - \$50,000	28.57%
\$50,000 - \$100,000	24.49%
\$100,000 - \$200,000	36.73%
\$200,000 - \$400,000	5.10%
More than \$400,000	1.02%
Total	100%

What do you feel about the financial status of your operation?



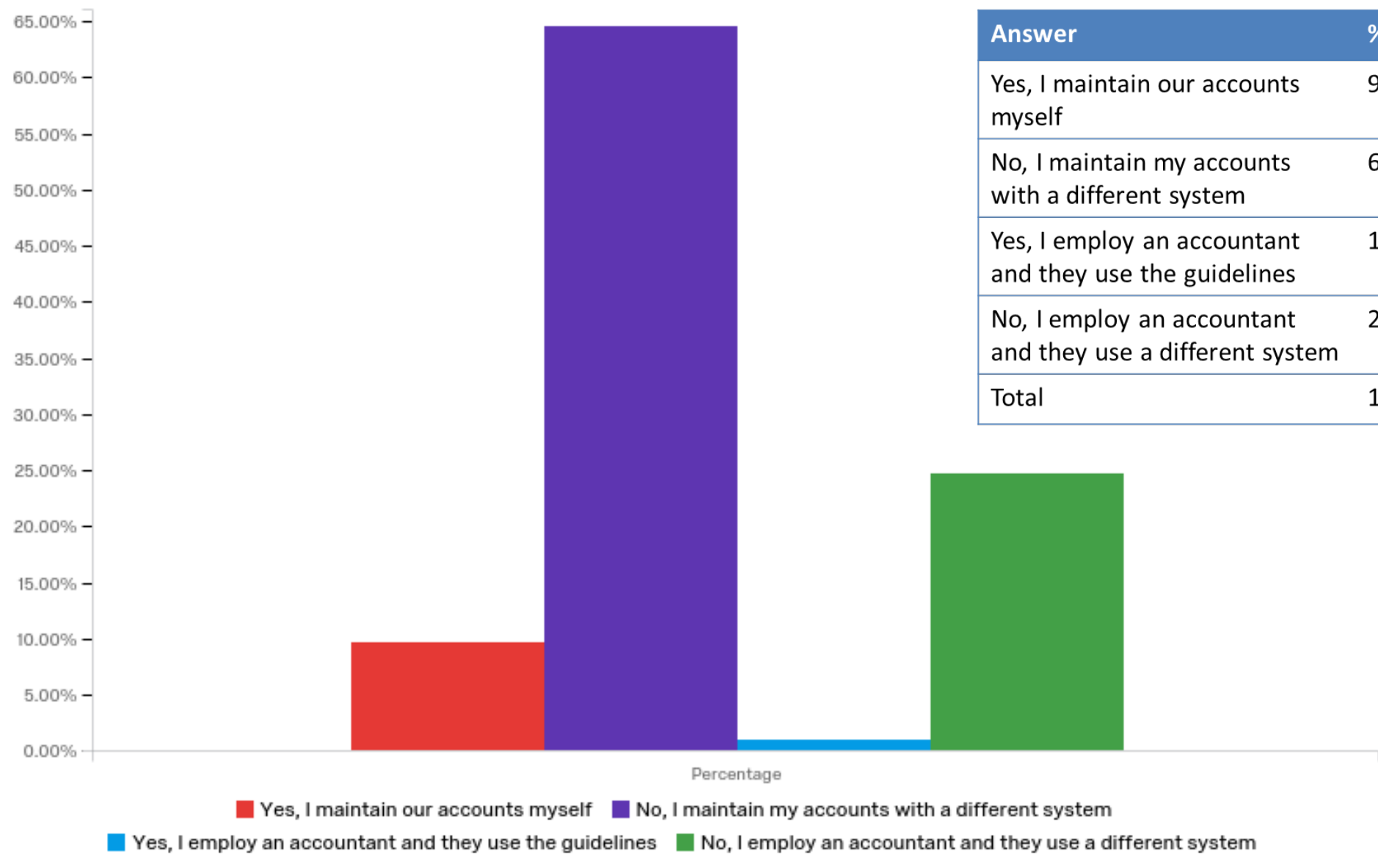
Answer	%
Very strong	11.11%
Moderately strong	20.20%
Fair	32.32%
Slightly weak	20.20%
Very weaker	16.16%
Total	100%

Have you heard about FINANCIAL GUIDELINES FOR AGRICULTURAL PRODUCERS (also known as "The Guidelines")?

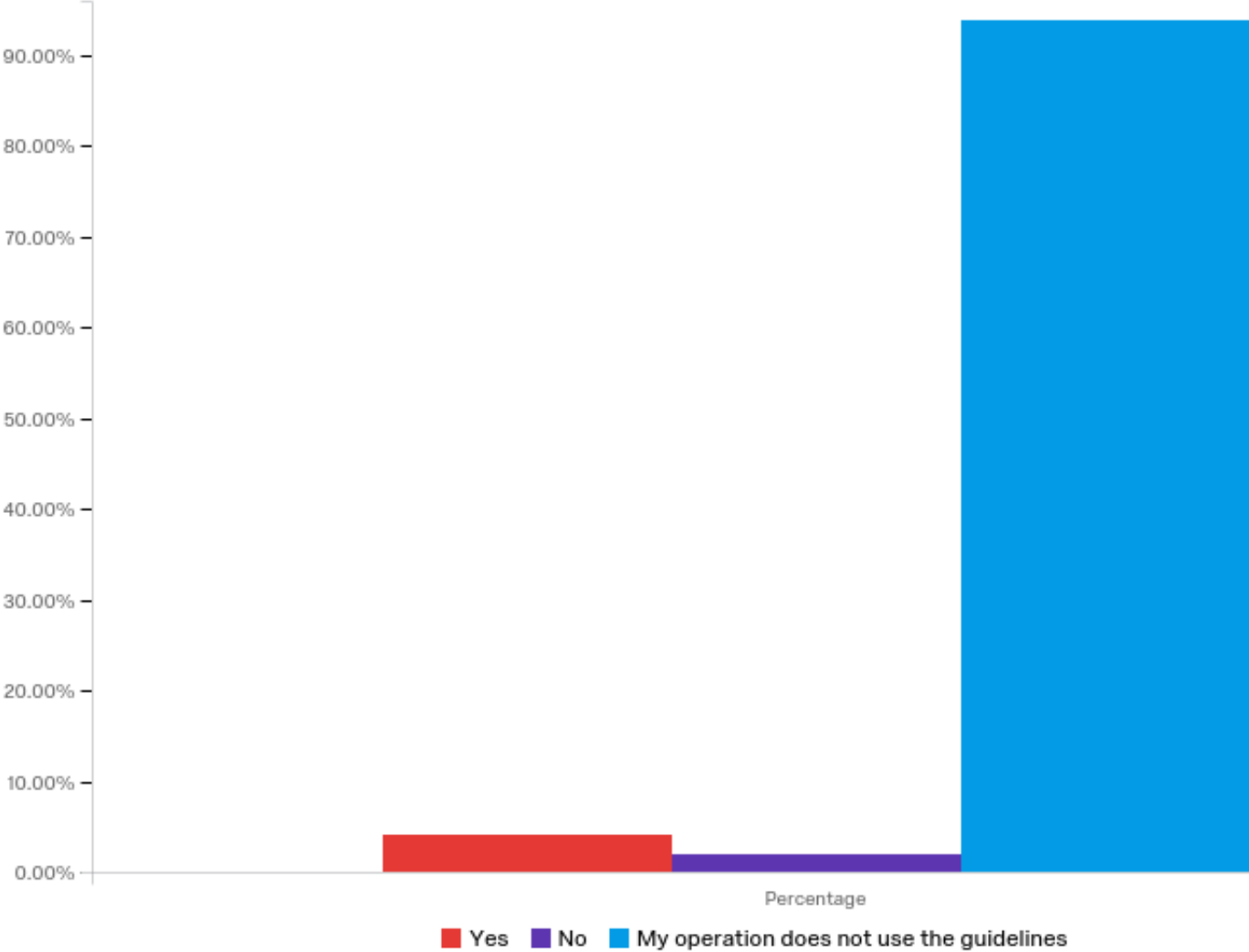


Answer	%
Yes	10.10%
No	89.90%
Total	100%

Do you use The Guidelines for your operation?

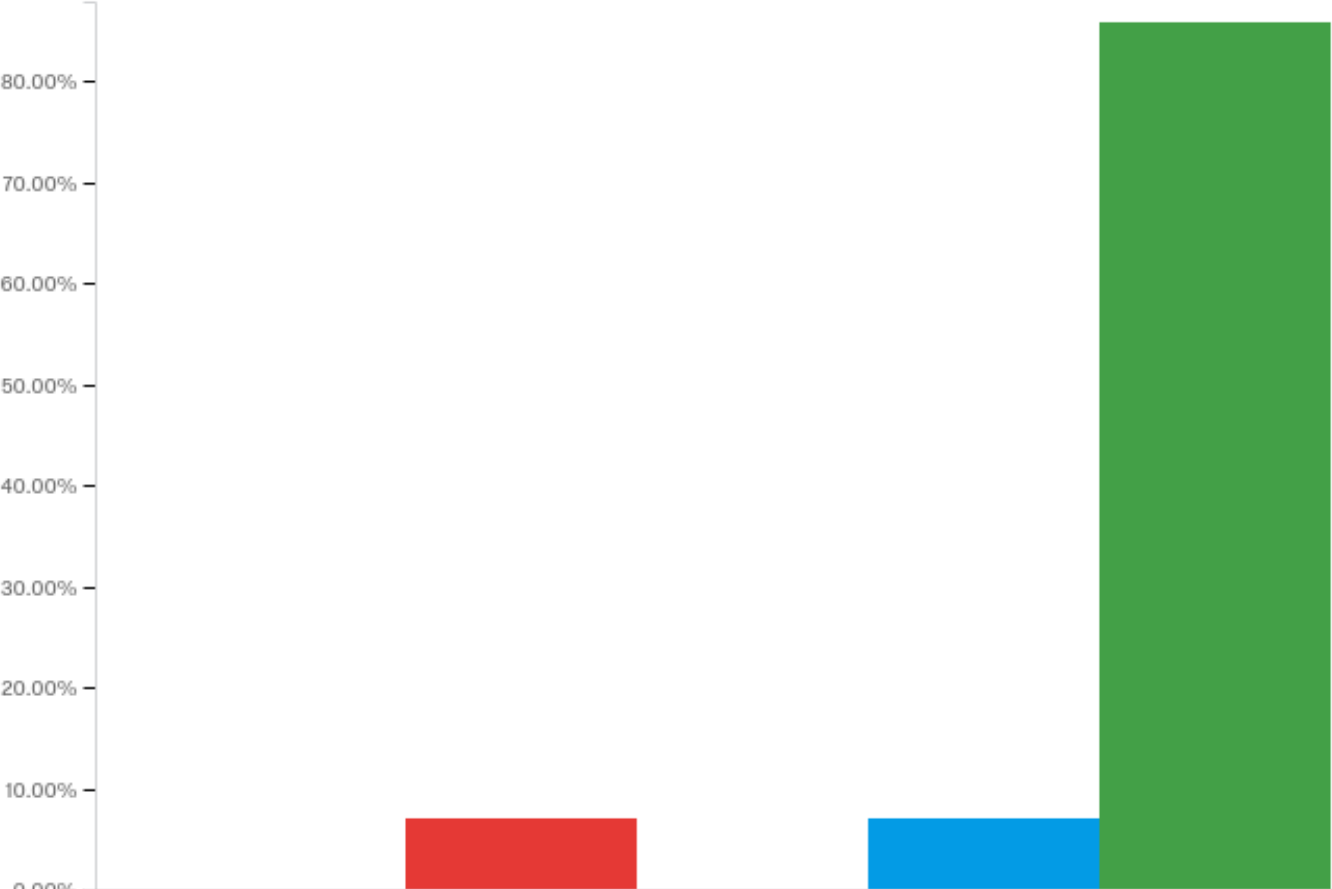


Do you think using The Guidelines has had an effect on your farm's profitability?



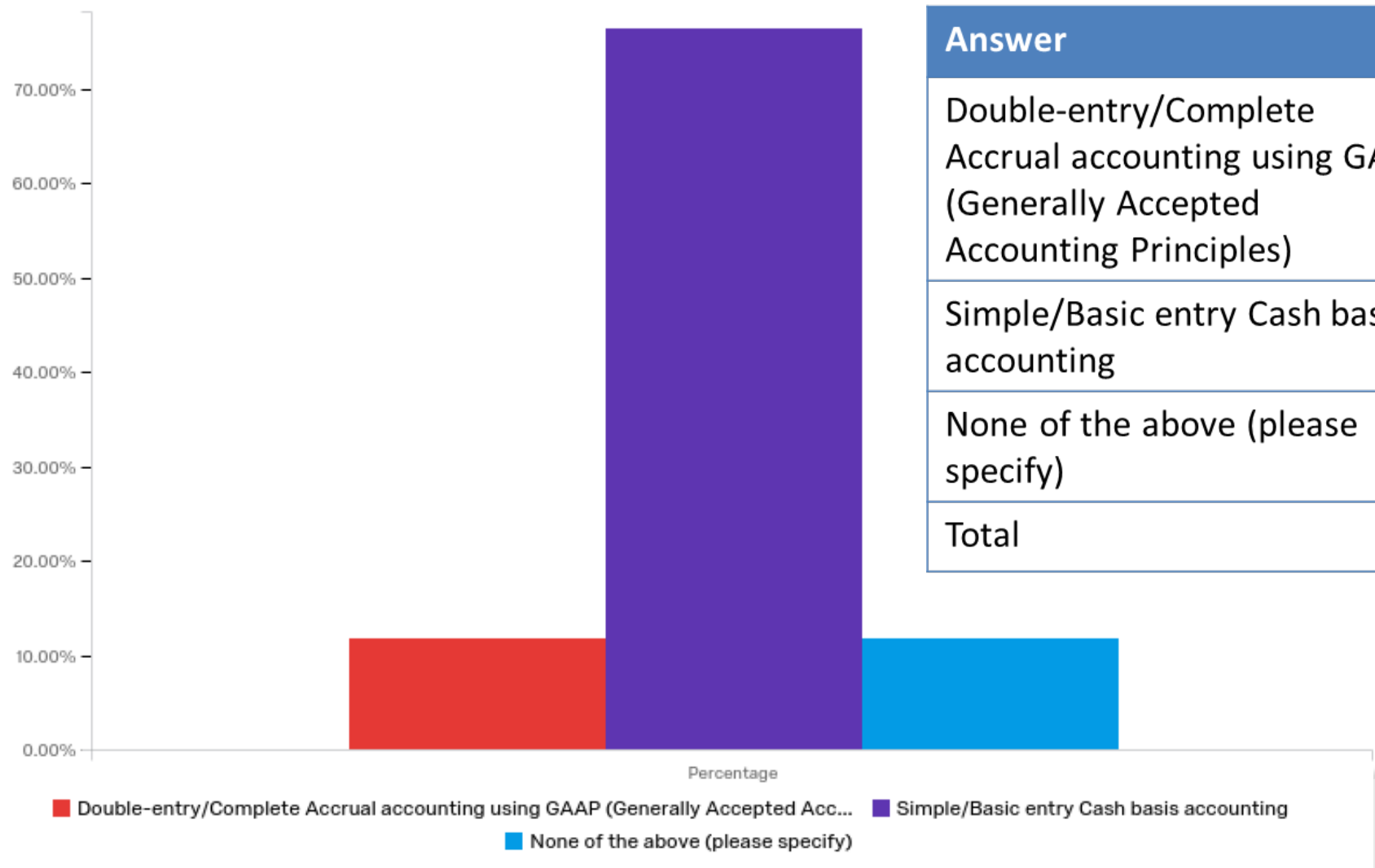
Answer	%
Yes	4.12%
No	2.06%
My operation does not use the guidelines	93.81%
Total	100%

If yes, what would you consider the effect to have been?



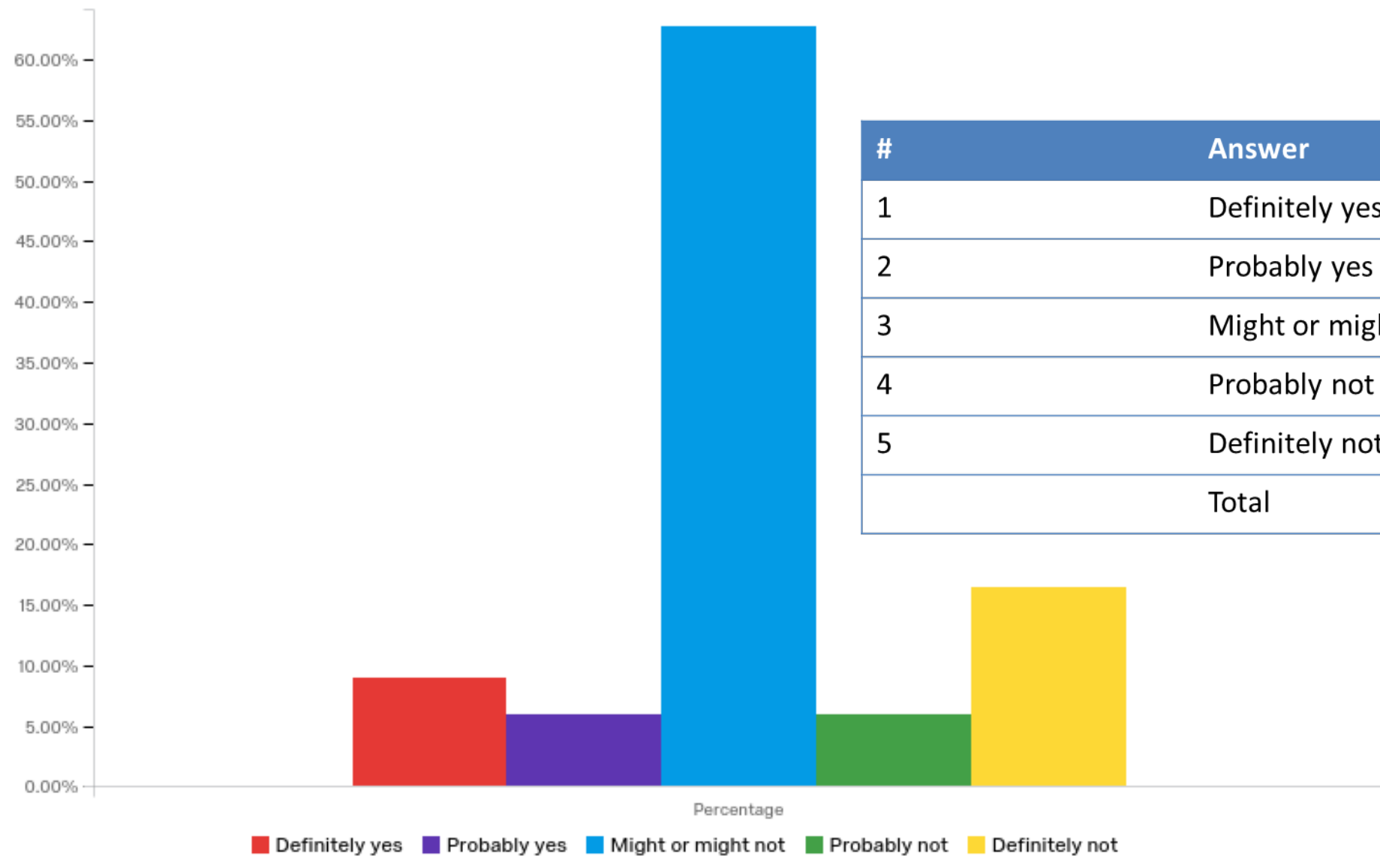
Significant increase in profitability Moderate increase in profitability Slight increase in profitability No noticeable profit increase, but an increase in ease of keeping up with t...

If you are not utilizing the guidelines, what accounting process do you use?



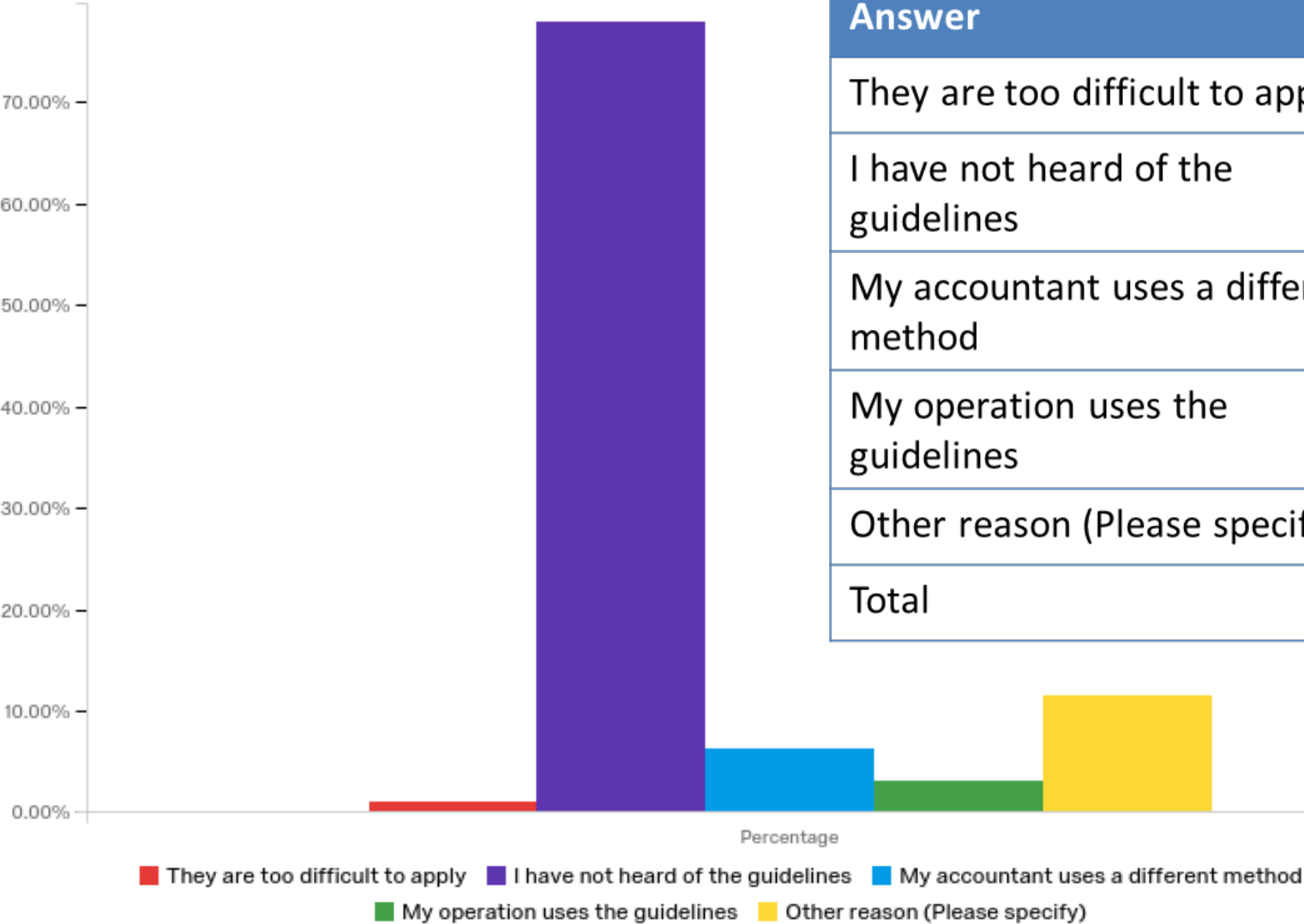
Answer	%
Double-entry/Complete Accrual accounting using GAAP (Generally Accepted Accounting Principles)	11.83%
Simple/Basic entry Cash basis accounting	76.34%
None of the above (please specify)	11.83%
Total	100%

Does the use of The Guidelines enable you to make informed decisions when it comes to the finances of the operation?



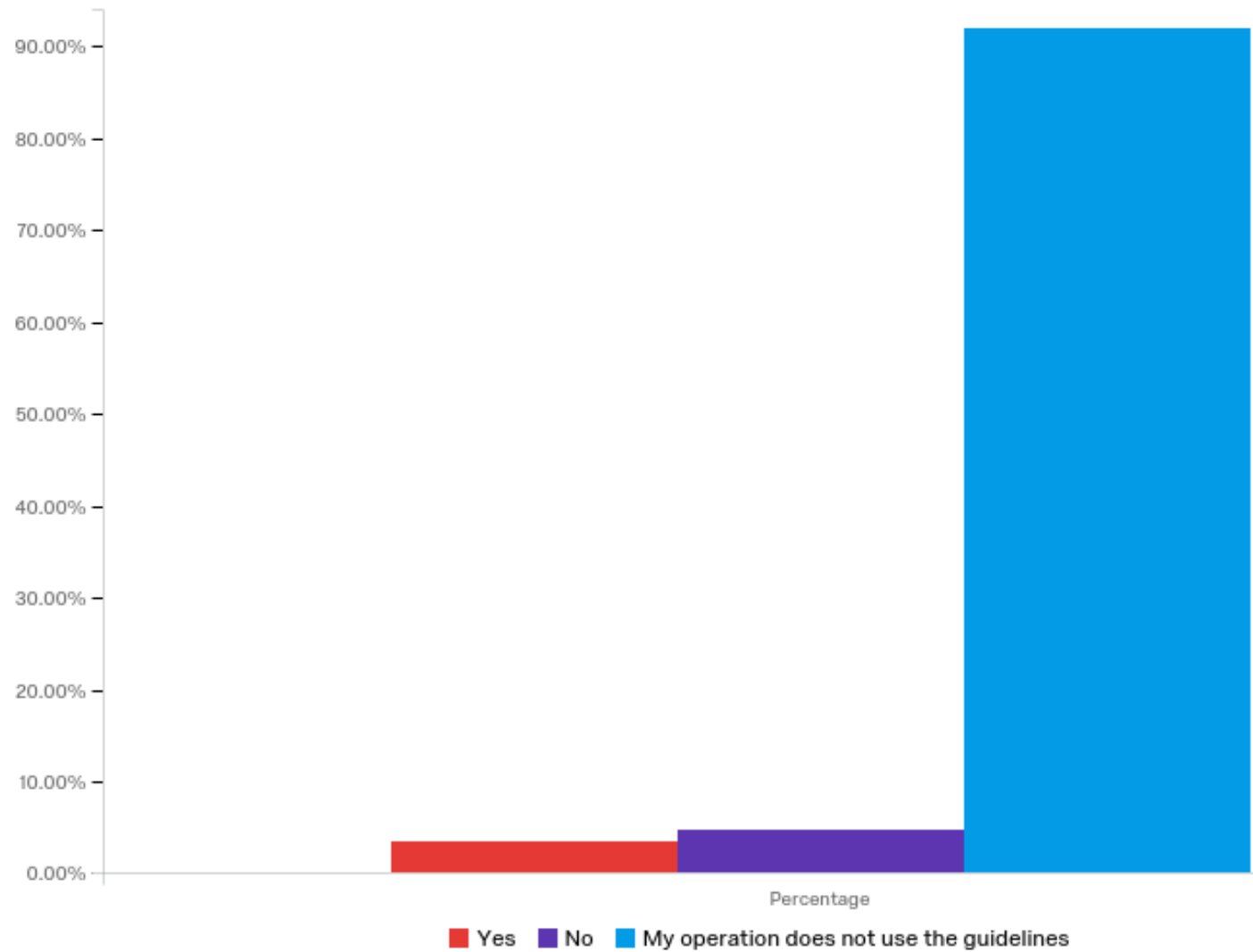
#	Answer	%
1	Definitely yes	8.96%
2	Probably yes	5.97%
3	Might or might not	62.69%
4	Probably not	5.97%
5	Definitely not	16.42%
Total		100%

If you have chosen to not use the guidelines on your operation, why?



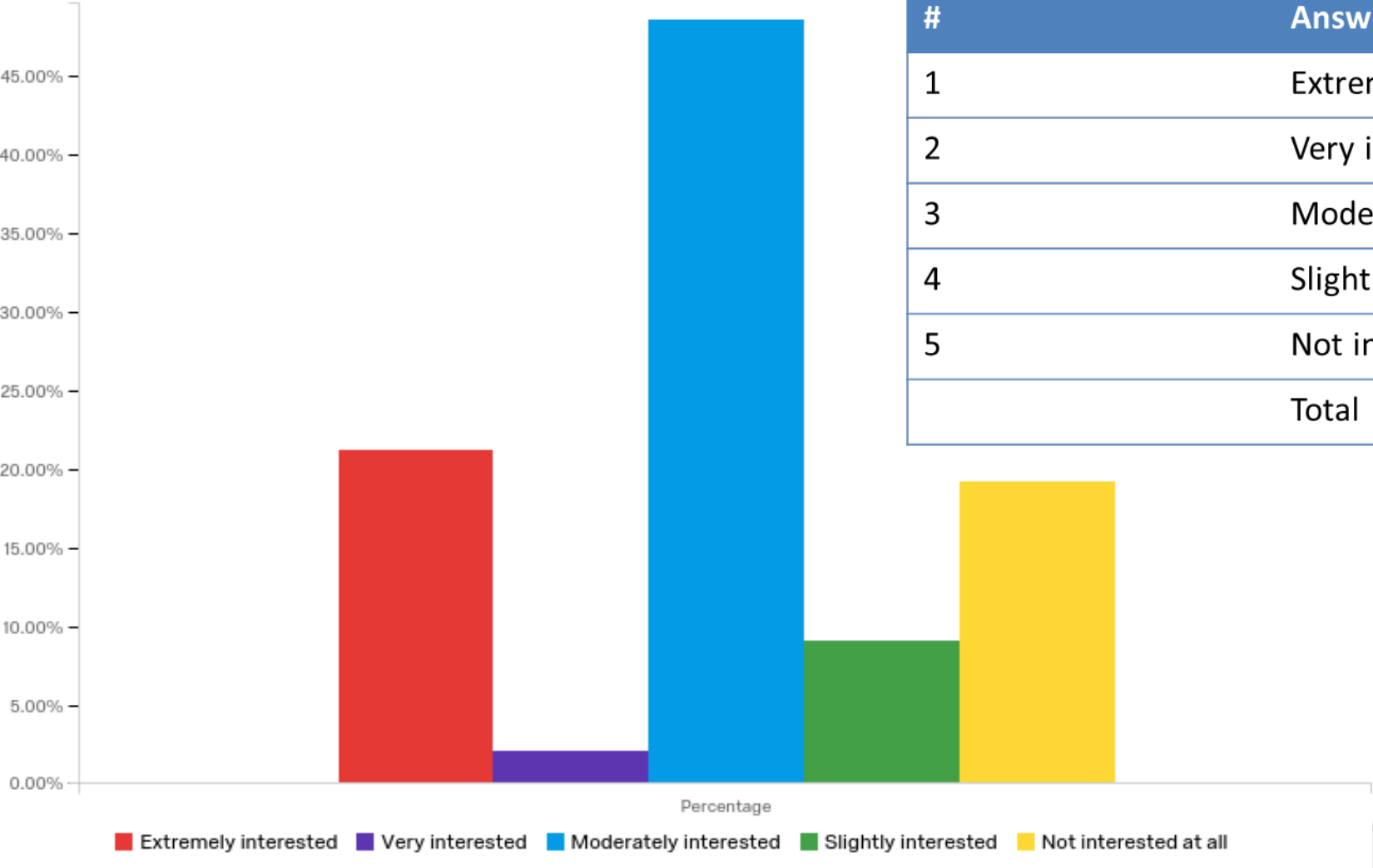
Answer	%
They are too difficult to apply	1.05%
I have not heard of the guidelines	77.89%
My accountant uses a different method	6.32%
My operation uses the guidelines	3.16%
Other reason (Please specify)	11.58%
Total	100%

Do you think using The Guidelines has had an effect on your decision-making for your farm?



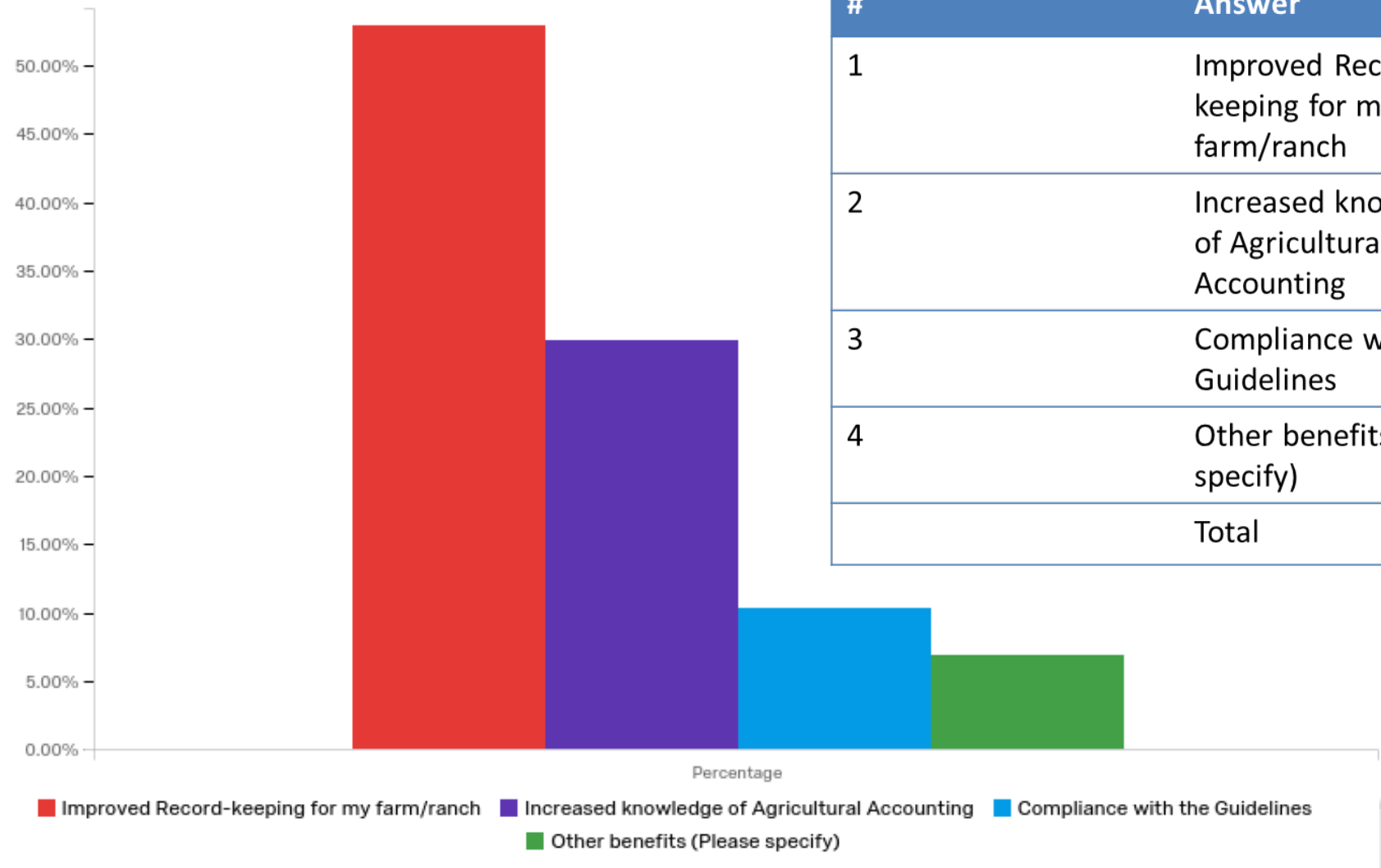
Answer	%
Yes	3.49%
No	4.65%
My operation does not use the guidelines	91.86%
Total	100%

How interested would you be in a class teaching The Guidelines and how to apply them on your operation?



#	Answer	%
1	Extremely interested	21.21%
2	Very interested	2.02%
3	Moderately interested	48.48%
4	Slightly interested	9.09%
5	Not interested at all	19.19%
Total		100%

What benefits do you think you would receive from a class teaching The Guidelines?



#	Answer	%
1	Improved Record-keeping for my farm/ranch	52.87%
2	Increased knowledge of Agricultural Accounting	29.89%
3	Compliance with the Guidelines	10.34%
4	Other benefits (Please specify)	6.90%
	Total	100%

CONCLUSION AND SUGGESTIONS

- Farm financial weakness can be one of the most convincing reasons to stop farming
- Results indicate that the majority of producers have either not heard of the Guidelines, or that they may have heard of them but are unsure of how to use them.
- Results suggest that extension specialists need to improve their efforts towards providing technical assistance to the producers
- Those who keep records of financial activities following the Guidelines have higher profits and are confident in making financial decisions to expend their farm.
- The fact that following the Guidelines is associated with greater profitability is a motivating factor to those who did not adopt them yet.
- An educational program aiming at training farmers on how to use the Guidelines is recommended