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# Finding financial measurement standards at the AAEA meetings

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## Finding financial measurement standards at the AAEA meetings

by Tim Eggers, field agricultural economist, [teggers@iastate.edu](mailto:teggers@iastate.edu), 712-542-5171

The Agricultural & Applied Economics Association (AAEA) is a professional organization for agricultural economists. William Edwards, Mike Duffy, Chad Hart, myself and many of the other authors of Ag Decision Maker articles, decision files and decision tools belong to the organization. At the annual meeting each August, sessions provide the opportunity to learn about the latest research and trends and interact with professionals and students in agriculture and applied economics from across the country. Following is a brief summary of a session on financial measures and how this impacts programming efforts from the ISU Extension and Outreach farm management team.

### Comparing ARMS to Farm Management Association Data: Implications for Data Analysis and Research

ARMS is the USDA's Agricultural Resource Management Survey. It is a national standard for costs of production estimates. This session compared ARMS to farm management association data in Illinois, Kentucky and Kansas. The organizer of the session was Nicholas Paulson from the University of Illinois.

Learning more about ARMS and farm management association data was relevant because of their roles in providing benchmarks. Our Iowa farm financial benchmarks come from the Iowa Farm Management Association, [www.iowafarmbusiness.org/](http://www.iowafarmbusiness.org/). Members of the ISU Extension farm management team, including myself, Ann Johanns, Kelvin Leibold and Kristen Schulte, are developing a series of financial management programs to implement across the state this winter. Benchmarks are a key part in each of the three programs.

### Rocking the Boat

*Your Key Ratio* - a 45-minute program focusing on current ratio and working capital  
*Deep Water or High Tide on the Beach?* - a full-day program that will challenge participants to determine whether their case farm is out in deep water or about to be stranded as the tide of economic profits recedes  
*Moving Beyond the Basics* - a multi-session program for agricultural women who benefit from the methodologies used in Annie's Project and want to learn more about managing their farm's finances

The Farm Financial Standards Council develops accounting standards for farm business. The council's 21 standard financial measures of profitability, liquidity, solvency, financial efficiency and repayment capacity for agricultural producers are clearly spelled out in its publication, *Financial Guidelines for Agriculture*. Variables in some of those measures require deep dives into producers' records. The AAEA session helped to illustrate some of the challenges of each set of data when using it for benchmarking purposes.

### How deeply do ARMS and farm management associations dive?

ARMS gathers data directly from producers and attempts to be the "mirror in which American farming views itself." ARMS is designed to accurately represent the financial and crop production practices of U.S. agricultural producers.

Farm management associations have the user's need for tax preparation and farm recordkeeping services to assure accurate data. They only have data on their clientele, and their clientele may not represent the average producer in a state or even the range of producers.

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Each presenter explained the unique characteristics of his or her state's farm management association. Questions asked by the applied economists in the audience helped to illustrate the limitations of comparing ARMS data to farm management association data. It pointed out how variables in some ratios need to be closely examined before assuming that the ratios can be used to compare farm businesses. For example, how is owner withdrawal for unpaid labor and management determined? Owner withdrawal for unpaid labor and management is a component in the calculations for Return on Assets, Return on Equity, and Operating Profit Margin Ratio. ROA and ROE are highly used ratios, so consistency is important if a farm's performance is being compared to a benchmark.

The discussion helped to illustrate how standardized benchmarks of financial performance are something that many states still do not have. The information shared in this session will result in better financial management programs for Iowans. It can be a real challenge to apply

standards consistently. Helping a producer understand an operation's financial position with clarity is important to see where the farm operation has been and where it is expected to go in the future. Comparing ARMS to Farm Management Association Data: Implications for Data Analysis and Research reminded me that there is still an art to working with the numbers.

### More information

AAEA - [www.aaea.org/](http://www.aaea.org/)

ARMS - [www.ers.usda.gov/data-products/arms-farm-financial-and-crop-production-practices.aspx](http://www.ers.usda.gov/data-products/arms-farm-financial-and-crop-production-practices.aspx)

Iowa Farm Business Association - [www.iowafarmbusiness.org](http://www.iowafarmbusiness.org)

Kansas Farm Business Association - [www.agmanager.info/kfma/](http://www.agmanager.info/kfma/)

Illinois Farm Business Association - [fbfm.ace.uiuc.edu](http://fbfm.ace.uiuc.edu)

FINBIN Farm Financial Database - [www.finbin.umn.edu](http://www.finbin.umn.edu)

Updates, continued from page 1

### Internet Updates

The following information files and decision tools have been updated on [www.extension.iastate.edu/agdm](http://www.extension.iastate.edu/agdm).

**Corn Stover Pricer** – A1-70 (Decision Tool)

**Managed Hay and Grazing of CRP Acres** – B1-60 (12 pages)

**Managed Hay and Grazing of CRP Acres** – B1-60 (Decision Tool)

**Overview of Confidentiality Agreement** – C5-80 (2 pages)

**Sample One-Sided Confidentiality Agreement** – C5-81 (3 pages)

**Sample Mutual Confidentiality Agreement** – C5-82 (3 pages)

**Capital Budgeting and Decision Making** – C5-242 (6 pages)

**Time Value of Money and Capital Budgeting Terms** – C5-243 (2 pages)

### Current Profitability

The following tools have been updated on [www.extension.iastate.edu/agdm/info/outlook.html](http://www.extension.iastate.edu/agdm/info/outlook.html).

**Corn Profitability** – A1-85

**Soybean Profitability** – A1-86

**Iowa Cash Corn and Soybean Prices** – A2-11

**Season Average Price Calculator** – A2-15

**Ethanol Profitability** – D1-10

**Biodiesel Profitability** – D1-15

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Whitten Building, 14th and Independence Avenue, SW, Washington, DC 20250-9410 or call 202-720-5964.

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