

# NSAC Advanced Co-op Accounting Course



*South Lake Tahoe  
May 23, 2018*





 Pool Accounting  
For Cooperatives



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# Session Objectives

- **Develop understanding of pool accounting**
- **Review inventory accounting methods unique to cooperatives**
- **Develop understanding impact of pool and inventory accounting on financial statements**

# Discussion Topics

- **Define Pool Accounting**
- **Review Inventory Accounting Methods**
- **Pool Accounting Methods**
- **Impact on Financial Statements**

# Pool Accounting

## Definition of Pool Accounting:

**“Accounting control centers used for determining earnings and patronage refunds due particular patron”**

- **Requires more accounting units (pools);**
- **Time frames many time different from fiscal year,  
vary from weeks to years;**
- **Basically good cost accounting.**



# Good Cost Accounting

- **Systematic rational**
- **Requires more detail records**
  - **By patron**
  - **By crop production cycle**
  - **By unit measure**
- **Consistent application**



# Good Cost Accounting

- **Transparent**
- **Communicated to members**
  - **Perception of equitability**
  - **Those charged with governance understand policies and risks**

# Methods of Pool Accounting

- **Single**
  - **One accounting unit**
  - **Usually conforms to fiscal year**
  - **Simple in application**

# Methods of Pool Accounting

- **Multiple Pools**
  - **By grade or size**
  - **By product or variety**
  - **By season or marketing conditions  
early, late season**
  - **By marketing arrangement**
    - **Comingled pool, share prices**
    - **Call pool, member “calls” price,  
expenses allocated based on units**

# Methods of Pool Accounting

- **Allocations to Pools**
  - **Revenue – Direct**
  - **Expense –**
    - **Direct to the extent possible**
    - **Indirect – Allocate – wide variance in policies**
  - **Other income / expense**
    - **Allocate**
- **Consistent policy**

# Methods of Pool Accounting

- **How long should pool run?**
  - **Best to have consistent policy**
  - **Most run until majority of pool is sold**
    - **Many use 90% to 95% of crop**
  - **Sell forward remaining crop to next**
    - **Usually at Net Realizable Value**

# Methods of Pool Accounting

## Single vs. Multiple Pools

Product	Proceeds Allocated to Patrons				
	Market Value	Multiple Pool		Single Pool	
		Amount	Percent	Amount	Percent
Beans	\$ 5,000	\$ 1,000	20.0%	\$ 675	13.5%
Corn	2,000	200	10.0%	270	13.5%
Carrots	3,000	150	5.0%	405	13.5%
	<u>\$ 10,000</u>	<u>\$ 1,350</u>	<u>13.5%</u>	<u>\$ 1,350</u>	<u>13.5%</u>

# Methods of Pool Accounting

- **Sell forward remaining crop to next**
  - **Sales** **\$129**
  - **Crop sold to next pool** **36**
  - **Crop from prior pool** **(31)**
  - **Gross proceeds of pool** **\$134**

# Inventory Accounting Methods

- **Supply cooperative**
  - **Same as non-cooperative company**
  - **Lower of cost or market**
- **Marketing cooperatives**
  - **Wide variances**
  - **Effected by arrangement with patrons**
  - **Is there a cost of product?**



# Inventory Accounting Methods in Use

- **Lower Cost or Market**
  - **Buy – sell cooperative**
  - **Reliable cost of product**
- **Net Realizable Value**
  - **ASC 905-330-35-5**
  - **AICPA Agricultural Producer Guide Issued 1987**
    - **FASB resisted use of market values**



# Other Methods in Use

## Most Considered Non-GAAP for Inventory Accounting

- Assigned or Established Value
- Standard cost
- Regardless, Inventory value should not exceed Net Realizable Value

# Net Realizable Value

## Definition of Net Realizable Value:

- “Valuation of inventories at estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation”
  - Requires a number of estimates / projections
  - Some abuses over the years

# Net Realizable Value

- **Let's work through computation**
- **Starts with estimated sales price**
  - **Where do we get that?**
- **Net Realizable Value**
  - **What costs do we net off estimated sales value?**
    - **Wide variances in application**

# Net Realizable Value

<u>Work in Process</u>	<u>Premium Wines</u>	<u>Standard Wines</u>
Gross Sales	\$ 4,400,000	\$ 17,600,000
Less:		
Cost to Complete:		
Aging and Bottling	1,000,000	3,600,000
Storage	200,000	800,000
General and Administrative	400,000	1,600,000
Distribution Costs	400,000	800,000
Direct Selling (Advertising, Product Discounts)	200,000	100,000
Direct Product Overhead	900,000	3,000,000
Special Price for Promotion	N/A	N/A
	<hr/>	<hr/>
Net Realizable Value	<u>\$ 1,300,000</u>	<u>\$ 7,700,000</u>



# Net Realizable Value

<u>Finished Case Goods</u>	<u>Premium Wines</u>	<u>Standard Wines</u>
Gross Sales	\$ 2,000,000	\$ 8,000,000
Less:		
Distribution Costs	200,000	400,000
Direct Selling (Advertising, Product Discounts)	100,000	50,000
Direct Product Overhead	300,000	1,000,000
Special Price for Promotion	300,000	-
Net Realizable Value	<u>\$ 1,100,000</u>	<u>\$ 6,550,000</u>



# Impact on Financial Statements

## Balance Sheet

- Inventories
- Amounts Due To/From Members

## Profit and Loss

- Net proceeds, when use assigned value for crop or no value for crop

# Impact on Financial Statements

## Profit and Loss differences

- Crop recorded at cost
- Crop recorded at assigned value
- Crop raw material value not recorded
- Inventory recorded at cost
- Inventory recorded at NRV



## Midstate Marketing Cooperative Statements of Operations<sup>8</sup>

<sup>8</sup> [FASB Statement No. 130](#), *Reporting Comprehensive Income*, establishes standards for the reporting and display of comprehensive income and its components. The Statement requires that all items that are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. The Statement does not require a specific format for that financial statement but requires that an enterprise display an amount representing total comprehensive income for the period in that financial statement. The Statement does not apply to an enterprise that has no items of other comprehensive income in any period presented.

	<b>Years Ended April 30,</b>	
	<b>20X2</b>	<b>20X1</b>
Net sales	\$129,630,000	\$110,110,000
Expenses		
Cost of sales (including proportionate share of assigned value of patrons' raw products received)	84,630,000	70,200,000
Selling, general, and administrative expense	19,380,000	18,900,000
Interest expense	<u>5,090,000</u>	<u>4,750,000</u>
Total expenses	109,100,000	93,850,000
Proceeds before provision for taxes on income	20,530,000	16,260,000
Provision for taxes on income (Note 5)	<u>1,250,000</u>	<u>900,000</u>
Net proceeds	<b><u>\$19,280,000</u></b>	<b><u>\$15,360,000</u></b>
Patronage	17,630,000	14,100,000
Nonpatronage	<u>1,650,000</u>	<u>1,260,000</u>
	<b><u>\$19,280,000</u></b>	<b><u>\$15,360,000</u></b>

## Exhibit B-11

### Midstate Marketing Cooperative Statements of Operations<sup>12</sup>

<sup>12</sup> In this example, no charge to cost of production has been made for patrons' raw product deliveries, and inventories of finished goods and goods in process have been valued at net realizable value.

	<i>Years Ended April 30,</i>	
	<i>20X2</i>	<i>20X1</i>
Net sales	\$129,630,000	\$110,110,000
Product inventory, ending	35,596,000	31,218,000
Product inventory, beginning	<u>(31,218,000)</u>	<u>(24,200,000)</u>
Gross proceeds	<u>134,008,000</u>	<u>117,128,000</u>
Cost and expenses		
Processing and packing	32,110,000	25,080,000
Selling, general, and administrative expenses	19,380,000	18,900,000
Interest expense	<u>5,090,000</u>	<u>4,750,000</u>
	<u>56,580,000</u>	<u>48,730,000</u>
Proceeds before income taxes	77,428,000	68,398,000
Income taxes (Note 4)	<u>1,250,000</u>	<u>900,000</u>
Net proceeds	<b><u>\$76,178,000</u></b>	<b><u>\$67,498,000</u></b>
Patronage	\$74,528,000	\$66,238,000
Nonpatronage	<u>1,650,000</u>	<u>1,260,000</u>
	<b><u>\$76,178,000</u></b>	<b><u>\$67,498,000</u></b>

# Effect on Amounts Due Patrons

	<u>Cost or Market</u>	<u>NR</u>	
Sales	\$ 129,630	\$ 129,630	
Cost and expenses	<u>109,100</u>	<u>52,202</u>	
Earnings before income taxes	20,530	77,428	(56,898)
Income Taxes	<u>1,250</u>	<u>1,250</u>	
Net earnings	19,280	76,178	
Amounts due patrons at beginning of year	8,910	11,748	
Assigned value of patrons' raw product	<u>56,500</u>	<u>-</u>	
Net	84,690	87,926	
Less amounts paid to patrons, retains, and non-patronage earnings	<u>74,430</u>	<u>74,430</u>	
Amounts due patrons at end of year	<u><u>\$ 10,260</u></u>	<u><u>\$ 13,496</u></u>	(3,236)



# Effect on Amounts Due Patrons

	<u>Cost or Market</u>	<u>NR</u>
Beginning inventory	\$ 40,000	\$ 42,838
Assigned value	56,500	-
Production Cost	44,960	44,960
End inventory	<u>(32,360)</u>	<u>(35,596)</u>
Cost and expenses	<u>\$ 109,100</u>	<u>\$ 52,202</u>

The difference in amount due patrons at the end of the year results from the difference in inventory valuations:

Net realizable value	\$ 35,596
Lower of cost or market	<u>32,360</u>
Difference	<u>\$ 3,236</u>



# Impact on Financial Statements

Results of pool closed in the current year

	<u>Total</u>
Contribution to fixed expenses	\$ 6,370
Fixed expenses (plant, etc.)	<u>(6,200)</u>
Net margin	170
Established value (e.v.) – raw product	5,800
Payments to growers	<u>(5,210)</u>
Net due on e.v.	590
Allocation to member equity	<u>760</u>
Raw product delivered	<u>5,800</u>
% margin on raw product	<u>2.93%</u>
Pool return	<u>102.93%</u>
% retained for equity	<u>13.10%</u>



# Impact on Financial Statements

## Lower of Cost or Market Analysis

	<u>Fruit</u>	<u>Beans</u>	<u>Nuts</u>
Gross Sales	\$ 3,300	\$ 10,000	\$ 10,000
Less selling expenses	<u>250</u>	<u>500</u>	<u>1,100</u>
Net realizable value	3,050	9,500	8,900
Inventory costs	<u>3,000</u>	<u>6,000</u>	<u>9,200</u>
Cost (over/under market)	<u><u>\$ 50</u></u>	<u><u>\$ 3,500</u></u>	<u><u>\$ (300)</u></u>

# Pool Accounting For Cooperatives

# QUESTIONS ?