1994

Agribusiness industry developments - 1994; Audit risk alerts

American Institute of Certified Public Accountants. Auditing Standards Division

AUDIT RISK ALERTS

Agribusiness Industry Developments—1994

Complement to AICPA Audit and Accounting Guide *Audits of Agricultural Producers and Agricultural Cooperatives*

AICPA

American Institute of Certified Public Accountants

NOTICE TO READERS

This audit risk alert is intended to provide auditors of financial statements of agricultural producers and agricultural cooperatives with an overview of recent economic, industry, regulatory, and professional developments that may affect the audits they perform. This document has been prepared by the AICPA staff. It has not been approved, disapproved, or otherwise acted on by a senior technical committee of the AICPA.

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1 2 3 4 5 6 7 8 9 0 AAG 9 9 8 7 6 5 4

Table of Contents

Page

Agribusiness Industry Developments—1994 5
Industry and Economic Developments 5
Audit Issues and Developments 6
Accounting Issues and Developments 14
AICPA Audit and Accounting Literature 18

Agribusiness Industry Developments—1994

Industry and Economic Developments

Agriculture ranks among the largest industries in the United States, generating over $950 billion annually in economic activity. Until recently, agriculture was the nation's principal occupation and employer. Although the number of people involved in agricultural production is still large, that number has been steadily declining as a result of increased farm productivity, growth in the size of individual farms and ranches, and the shifting of the general population toward urban centers. Despite the trend toward larger business units, however, entities in agriculture still range from small, noncorporate family groups to publicly held multinational corporations.

Owning a farm has become surprisingly profitable. Crop prices have jumped more than 40 percent since the late 1980s. Revenues at the average farm, meanwhile, have nearly doubled since hitting bottom in 1984, and profits have more than tripled. The transformation of America's farm economy is catching the attention of a wide range of investors, including commodity traders.

In general, the long-term outlook for the agribusiness industry is bright. Industrial demand for agricultural products is expanding rapidly. Because of ecological concerns, biodegradable food products like soybean oil and corn kernels are now being used in everything from air filters to plastics. Auditors should be aware that some agricultural producers and agricultural cooperatives may be involved in research and development (R&D) programs to create new products or improve those that exist. Guidance on accounting for R&D costs is provided by Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards No. 2, *Accounting for Research and Development Costs* (FASB, *Current Text*, vol. 1, sec. R50).

FASB Statement No. 2 requires that R&D costs be charged to expense as incurred. Examples of activities that typically would be included in R&D are outlined in FASB Statement No. 2, paragraph 9. In addition, paragraph 10 of FASB Statement No. 2 cites examples of activities that typically would be excluded from R&D. Auditors of agricultural producers and agricultural cooperatives should be familiar with the requirements of FASB Statement No. 2 and should review any deferred costs with the proper degree of professional skepticism.

In the near future, the agribusiness industry will be affected by forces as diverse as President Clinton's plans to dismantle government land programs and consumers' tastes for different products. The president's land program plan, for example, will return 36.5 million acres to private use over the next three years. This may put downward pressure on crop prices as more land comes under the plow. Additionally, the need for agribusiness participation in R&D projects will increase to meet consumers' changing tastes.

The General Agreement on Tariffs and Trade (GATT) may also affect agricultural producers and agricultural cooperatives. As governments around the world adopt the new GATT rules over the next few years, trade barriers will probably be lowered, creating more demand for U.S. wheat, corn, and meat. However, although some American agribusinesses will benefit from freer trade, others will not. For example, as part of the GATT talks, the United States has pledged to cut subsidies on the export of cottonseed and soybeans, which are used to make vegetable oil. These reduced subsidies will likely result in more seed remaining in the United States. The result could be lower seed prices, which probably will translate into lower profit margins. Auditors should consider how the new GATT rules may affect their clients.

The new agribusiness environment holds many other implications for auditors of agricultural producers and agricultural cooperatives. Statement on Auditing Standards (SAS) No. 22, *Planning and Supervision* (AICPA, *Professional Standards*, vol. 1, AU sec. 311), requires that, in planning their audits, auditors consider "matters affecting the industry in which the entity operates." Increased competition, technological advancements, recoverability of asset values, and other economic factors that affect agricultural producers and agricultural cooperatives raise a number of issues that may increase audit risk and that should be carefully considered by auditors as they plan their audits. These and other issues are addressed further in the "Audit Issues and Developments" section of this Audit Risk Alert.

Audit Issues and Developments

Investments in Derivatives

Recent years have seen a growing use of innovative financial instruments, known as *derivatives,* that often are very complex and can involve a substantial risk of loss. Both agricultural producers and agricultural cooperatives regularly enter into forward contracts, futures contracts, and options in order to hedge against losses related to the effect of changing prices. As interest rates, commodity prices, and numerous other market rates and indices from which derivative financial instruments obtain their value have increased in volatility over the past several months, a number of entities have incurred significant losses as a result of their use. The utilization of derivatives virtually always increases audit risk. Although the financial statement assertions about derivatives are generally similar to assertions about other transactions, the auditors' approach to achieving related audit objectives may differ because certain derivatives are not generally recognized in the financial statements. Many of the unique audit risk considerations presented by the use of derivatives are discussed in detail in *Audit Risk Alert—1994.*

Financing Arrangements

In the past, land generally made up a large part of the investment base of many agricultural producers. Because of the tendency for land to appreciate in value, a large portion of the net worth of these producers accumulated in the form of land. For small family farms, the result was the ability to finance the business internally. Many modern farms have reached the stage where such internal financing is no longer adequate. As a result, many producers are relying more heavily on both external financing and innovative financing methods.

Increases in Financing Arrangements. In instances of increases in financing arrangements, the overall audit risk will usually increase, resulting in the need to augment and alter the nature of audit procedures. One of the areas in which reporting and disclosure problems most commonly occur is that of loan covenants. Auditors should be alert for violations that could cause long-term debt to become a current liability.

Audit Risk Alert—1994 includes a detailed discussion on loan covenants.

Innovative Financing Methods. As producers search for new sources of financing, many new and innovative financing methods are growing in popularity. Auditors of agricultural producers and agricultural cooperatives should be aware of methods such as limited partnerships, joint ventures, member-employee loan programs, special assessments, deferred-payment programs, nonfarm credit financing, and employee equity participation. These types of innovative financing arrangements could affect the audit in various ways, such as—

- Changing the nature of audit procedures—for example, reading partnership agreements, or analyzing and substantiating changes in partnership or joint venture capital.
- Increasing the amount of audit work performed on equity and income taxes in the case of partnerships.

- Increasing the testing of internal control structure when the agricultural producer or agricultural cooperative is invested in an unaudited partnership or joint venture.

In cases of innovative financing methods, the overall audit risk will also usually increase, resulting in the need to augment and alter the nature of audit procedures. If auditors do not have the proper expertise in this area, they should consider using an outside specialist for these transactions.

Using the Work of a Specialist

As part of an audit of the financial statements of agricultural producers or agricultural cooperatives, auditors may wish to consider the use of a specialist; if so, auditors should follow the guidance of SAS No. 73, *Using the Work of a Specialist* (AICPA, *Professional Standards,* vol. 1, AU sec. 336). SAS No. 73 is effective for audits of financial statements for periods ending on or after December 15, 1994, with earlier application encouraged.

SAS No. 73 provides guidance to auditors who use the work of a specialist in performing audits in accordance with generally accepted auditing standards (GAAS). SAS No. 73 is not expected to dramatically change current practice for auditors who use the work of a specialist in audits performed in accordance with GAAS. It does, however, (1) clarify the applicability of the guidance, (2) provide updated examples of situations that might require using the work of specialists and the types of specialists being used today, and (3) provide guidance when a specialist is related to the client.

Audit Risk Alert—1994 contains additional information on SAS No. 73.

Inventory

Inventory is generally a significant asset (usually the most significant current asset) on the balance sheet of an agricultural producer or agricultural cooperative. Because an agricultural producer or agricultural cooperative is essentially a manufacturer, auditors should be aware that inventory often has a higher inherent risk and produces greater complexities for auditors than do inventories of other businesses. AICPA Statement of Position (SOP) 85-3, *Accounting by Agricultural Producers and Agricultural Cooperatives,* provides specific guidance on the generally accepted accounting principles (GAAP) relating to accounting for inventories of agricultural producers and agricultural cooperatives. Auditors should pay special attention to the following areas of inventory accounting that may affect audit risk:

1. Whether the agricultural producer or agricultural cooperative has established an adequate internal control structure over the inventory—for example, a control structure that safeguards physical quantities and provides accurate quantity and cost data
2. Whether all purchases and receipts are properly authorized and recorded
3. Whether payroll records are sophisticated enough to allow labor costs to be allocated to the appropriate inventory component
4. Whether all direct and indirect costs of developing animals raised for a productive function are accumulated until the animals reach maturity and are transferred to a productive function, at which point the accumulated development costs are depreciated over the animals' estimated productive life
5. Whether all direct and indirect costs of developing animals raised for sale are accumulated and the animals are accounted for at the lower of cost or market until they are available for sale. SOP 85-3 provides that agricultural producers should report animals available and held for sale (*a*) at the lower of cost or market or (*b*) in accordance with established industry practice at sales price, less estimated costs of disposal, when all of the following conditions exist:
   - There are reliable, readily determinable, and realizable market prices for the animals.
   - The costs of disposal are relatively insignificant and predictable.
   - The animals are available for immediate delivery.
6. Whether agricultural cooperatives are appropriately determining the passing of title for products received from patrons without payment of a set price to the patron
7. Whether permanent land development costs are being appropriately capitalized by the agricultural producer or agricultural cooperative
8. Whether limited-life development costs and direct and indirect development costs of orchards, groves, vineyards, and intermediate-life plants are appropriately capitalized during the development period and depreciated over the estimated useful life of the land development or of the tree, vine, or plant

Auditors of agricultural producers or agricultural cooperatives may consider engaging a specialist to evaluate the quality or value of inventory. In these cases, auditors should follow the guidance in SAS No. 73.

Other general guidance on auditing inventory can be found in the AICPA Auditing Procedure Study, *Audits of Inventories* (Product No. 021045).

Research and Development Costs

Some agricultural producers and agricultural cooperatives may be involved in R&D programs in attempts to create different products or improve those that exist. Auditors should consider whether these costs have been appropriately accounted for and disclosed. As previously discussed, guidance on accounting for R&D costs is provided by FASB Statement No. 2, which generally requires that such costs be charged to expense as incurred. Auditors of agricultural producers and agricultural cooperatives should be particularly skeptical about any preproduction costs that are deferred. In such circumstances, they should carefully consider the adequacy of evidential matter available to substantiate the amount and propriety of the deferral, namely that—

1. The development of the product to which the costs relate was complete as defined in FASB Statement No. 2.
2. The product was ready for production.

Environmental Issues

Environmental remediation issues are becoming increasingly important to many agricultural producers and agricultural cooperatives. These entities commonly use herbicides and pesticides and engage in activities, such as maintenance of underground storage tanks, that may create environmental cleanup activities.

The U.S. Environmental Protection Agency (EPA) is empowered by law to seek recovery from anyone who ever owned or operated a particular contaminated site, or anyone who ever generated or transported hazardous materials to such a site. The accounting literature applicable to accounting for environmental remediation liabilities includes FASB Statement No. 5, *Accounting for Contingencies* (FASB, *Current Text*, vol. 1, sec. C59), FASB Interpretation No. 14, *Reasonable Estimation of the Amount of a Loss* (FASB, *Current Text*, vol. 1, sec. C59), and FASB Interpretation No. 39, *Offsetting of Amounts Related to Certain Contracts* (FASB, *Current Text*, vol. 1, sec. B10). In addition, guidance is included in the consensus reached by the FASB's Emerging Issues Task Force (EITF) in EITF Issue No. 90-8, *Capitalization of Costs to Treat Environmental Contamination*, and Issue No. 93-5, *Accounting for Environmental Liabilities.*

The staff of the Securities and Exchange Commission (SEC) also has continued to articulate its views on the appropriate accounting and related disclosures for environmental remediation liabilities. In June 1993, the SEC staff issued Staff Accounting Bulletin (SAB) No. 92, *Accounting and Disclosures Relating to Loss Contingencies,* which focuses primarily on environmental and product liability contingencies. SAB No. 92 provides the SEC staff's interpretation of current accounting literature related to matters such as—

- The inappropriateness of offsetting probable recoveries against probable contingent liabilities.
- Recognition of liabilities for costs apportioned to other potential responsible parties.
- Uncertainties in the estimation of the extent of environmental liabilities.
- The appropriate discount rate for environmental liabilities, if discounting is appropriate.
- Financial statement disclosures of exit costs and other items, and disclosure of certain information outside the basic financial statements.

Audit Risk Alert—1994 contains further discussion of issues relating to environmental remediation matters.

Financial Guidelines for Agricultural Producers and Agricultural Cooperatives

Historically, a lack of standardization in farm financial analysis made it difficult to compare farm businesses and to understand and use data. To solve these problems, the American Bankers Association formed the Farm Financial Standards Task Force (FFSTF), which included lenders, academicians, accountants, and farm-software representatives. Their mission was to help producers and the professionals who service them.

In 1991, the FFSTF completed initial guidelines for reporting and analyzing financial information of farmers and ranchers. Although the FFSTF endorsed GAAP as the basis for farm financial accounting, it recognized the following areas of departure from GAAP.

1. *Balance-sheet format-capital asset presentation*—GAAP requires that an entity's balance sheet be prepared using cost information for capital assets. The FFSTF proposed an alternative balance-sheet format that may include market values of capital assets on the face of the balance sheet and cost information in supporting schedules, parenthetical disclosure of cost information, or a double-column approach.

2. *Raised breeding stock*—The FFSTF encouraged a full-cost-absorption approach for treatment of raised breeding stock. However, for analysis purposes, alternative methods are allowed that establish an estimated "base value" for balance-sheet representation. Earnings impact is limited only to the effect of a change in size of the breeding herd because the base value is not amortized against revenue.
3. *Deferred taxes*—Although the FFSTF recommends full adoption of GAAP accounting for deferred income taxes, it allows an alternative calculation approach, which can be used for the purpose of financial analysis.
4. *Accounting for inventories of grain and livestock*—A strict interpretation of GAAP would limit accounting for livestock inventories at "market" only if the animals were at market weight. The FFSTF recommendations for financial analysis depart from GAAP. The FFSTF recommendations allow market valuation for all grain and livestock inventories held for sale, as long as the three conditions in paragraph 39 of SOP 85-3 apply.
5. *Growing crops*—Paragraph 38 of SOP 85-3 requires that "all direct and indirect costs of growing crops should be accumulated and growing crops should be lower of cost or market." In the case of annual crops, the FFSTF recommends, for analysis purposes, that it is allowable to accumulate direct costs only and to report this "Investment in Growing Crops" on a cost basis.
6. *Government loan programs*—Under various stabilization programs, producers of certain crops or products may receive federal agency loans that are collateralized by security interests in negotiable warehouse receipts. The producer is not required to repay the loans but may relinquish title to stored crop or product to satisfy the obligation. Because the producer has title to the product until a decision is made to liquidate the obligation by transfer of title to the lender, the loan should be shown in total as a current liability and the inventory recorded as an asset. Conditions may exist where the net realizable value of the commodity is less than the loan and accrued interest. In those cases, the net realizable value of the commodity should be equal to the loan, including accrued interest. The FFSTF has departed from this position and recommended, for analysis purposes, that the commodity be shown at the higher of net realizable value or the government loan rate. In cases where net realizable value exceeds the loan rate, accrued interest on the loan should be reported, limited by the constraint that the total of the loan amount plus accrued interest should not exceed the net realizable value.

Auditors who report on financial statements prepared in conformity with such FFSTF recommendations should consider the guidance contained in SAS No. 58, *Reports on Audited Financial Statements* (AICPA, *Professional Standards*, vol. 1, AU sec. 508, paragraphs 49 through 69). When financial statements are materially affected by a departure from GAAP and the auditors have audited the statements in accordance with GAAS, they should express a qualified (paragraphs 50 through 66) or an adverse (paragraphs 67 through 69) opinion. The basis for such opinion should be stated in the auditors' report.

Service Center–Produced Records

Many agricultural producers and agricultural cooperatives use outside service organizations to perform tasks requiring expertise or technology that does not exist within the organization. Service organizations provide various levels of services, ranging from performing a specific task under the direction of an agricultural producer or agricultural cooperative to replacing entire business units or functions of the agricultural producer or agricultural cooperative. SAS No. 70, *Reports on the Processing of Transactions by Service Organizations* (AICPA, *Professional Standards*, vol. 1, AU sec. 324), provides guidance to auditors of agricultural producers or agricultural cooperatives and to service auditors performing procedures and reporting on the control policies and procedures at a service organization.

When an agricultural producer or agricultural cooperative uses a service organization, the functions or processing performed by the service organization may have a significant effect on the entity's financial statements. Because the processing may be subjected to control policies and procedures that are physically and operationally separate from the agricultural producer or agricultural cooperative, the internal control structure of the producer/cooperative may include a component that is not directly under the control and monitoring of its management. SAS No. 55, *Consideration of the Internal Control Structure in a Financial Statement Audit* (AICPA, *Professional Standards*, vol. 1, AU sec. 319), requires auditors to obtain a sufficient understanding of an entity's internal control structure to plan an audit. For this reason, planning the audit of an agricultural producer or agricultural cooperative may require that auditors gain an understanding of the control policies and procedures performed by service organizations. When an agricultural producer or agricultural cooperative relies on a service organization's control policies and procedures over the processing of transactions that are material to the agricultural producer or agricultural cooperative's financial statements, those control procedures should be considered by the auditors. One method of obtaining information about those policies and procedures is to obtain a service auditor's report as described in SAS No. 70.

Auditors frequently inquire whether it is necessary to obtain a service auditor's report when their clients use service organizations. The fact that an entity uses such an organization does not, in itself, require that such a report must be obtained. In certain situations, the agricultural producer or agricultural cooperative may implement control policies and procedures that will obviate the need for a service auditor's report. For example, an agricultural producer or agricultural cooperative using a payroll service may routinely compare the data submitted to the service organization with reports received from the service organization to check the completeness and accuracy of the data processed. The agricultural producer or agricultural cooperative may also recompute a sample of the payroll checks for clerical accuracy and review the total payroll for reasonableness. In such circumstances, the agricultural producer or agricultural cooperative is not relying on the service organization's controls.

Other factors that may be considered in determining whether to obtain a service auditor's report are—

1. Whether the transactions or accounts affected by the service organization are material to the agricultural producer or agricultural cooperative's financial statements.
2. The extent to which the user organization retains responsibility for authorizing the transactions and maintaining the related accountability.
3. The availability of other information (for example, user manuals, system overviews, and technical manuals) that may provide the auditors with sufficient information to plan the audit.

Accounting Issues and Developments

FASB Statement on Derivatives

As previously discussed, both agricultural producers and agricultural cooperatives regularly employ derivative financial instruments as risk management tools (hedges) or as speculative investment vehicles. These off-balance-sheet instruments are complex financial instruments whose values depend on the volatility of interest rates, foreign currency indexes, and commodity and other prices.

In October 1994, the FASB issued FASB Statement No. 119, *Disclosure about Derivative Financial Instruments and Fair Value of Financial*

Instruments (FASB, *Current Text*, vol. 1, sec. F25). FASB Statement No. 119 requires disclosures about derivative financial instruments—futures, forward, swap, and option contracts, and other financial instruments with similar characteristics. It also amends existing requirements of FASB Statement No. 105, *Disclosure of Information about Financial Instruments with Off-Balance-Sheet Risk and Financial Instruments with Concentrations of Credit Risk* (FASB, *Current Text*, vol. 1, sec. F25), and FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments* (FASB, *Current Text*, vol. 1, sec. F25).

FASB Statement No. 119 requires, among other things, disclosures about amounts, nature, and terms of derivative financial instruments that are not subject to FASB Statement No. 105 because they do not result in off-balance-sheet risk of accounting loss. It requires that a distinction be made between financial instruments held or issued for trading purposes (including dealing and other trading activities measured at fair value with gains and losses recognized in earnings) and financial instruments held or issued for purposes other than trading. It also amends FASB Statement Nos. 105 and 107 to require that distinction in certain disclosures required by those statements.

For entities that hold or issue derivative financial instruments for trading purposes, FASB Statement No. 119 requires disclosure of average fair value, net trading gains or losses, or both. For entities that hold or issue derivative financial instruments for purposes other than trading, it requires disclosure about those purposes and about how the instruments are reported in financial statements. For entities that hold or issue derivative financial instruments and account for them as hedges of anticipated transactions, it requires disclosure about the anticipated transactions, the classes of derivative financial instruments used to hedge those transactions, the amounts of hedging gains and losses deferred, and the transactions or other events that result in recognition of the deferred gains or losses in earnings. FASB Statement No. 119 also encourages, but does not require, quantitative information about market risks of derivative financial instruments, and also of other assets and liabilities, that is consistent with the way the entity manages or adjusts risks and that is useful for comparing the result of applying the entity's strategies to its objectives for holding or issuing the derivative financial instruments.

FASB Statement No. 119 amends FASB Statement No. 105 to require disaggregation of information about financial instruments with off-balance-sheet risk of accounting loss by class, business activity, risk, or other category that is consistent with the entity's management of those instruments. FASB Statement No. 119 amends FASB Statement No. 107 to require that fair-value information be presented without combining, aggregating, or netting the fair value of derivative financial instruments with the fair value of nonderivative financial instruments, and that it be presented together with the related carrying amounts in the body of the financial statements, a single footnote, or a summary table in a form that makes it clear whether the amounts represent assets or liabilities.

FASB Statement No. 119 is effective for financial statements issued for fiscal years ending after December 15, 1994, except for entities with less than $150 million in total assets. For those entities, FASB Statement No. 119 is effective for financial statements issued for fiscal years ending after December 15, 1995.

Auditors of financial statements of agricultural producers or agricultural cooperatives that are parties to transactions that involve derivatives should be aware of the requirements of FASB Statement No. 119 and should consider whether the disclosures made by their clients in their financial statements are adequate and appropriate in view of the new requirements. For companies with significant holdings of derivatives that may or must be settled by delivery of a commodity, such as an agricultural commodity, the SEC staff believes that SEC registrants should include disclosures regarding the nature and terms of such instruments in Management's Discussion and Analysis.

Impairment of Assets

In November 1993, the FASB issued an exposure draft of a proposed Statement titled *Accounting for the Impairment of Long-Lived Assets.* The proposed Statement addresses accounting for the impairment of long-lived assets, as well as identifiable intangibles and goodwill that is related to those assets. The final Statement would establish guidance for recognizing and measuring impairment losses and would require that the carrying amount of impaired assets be reduced to fair value.

If finalized as proposed, the Statement would require long-lived assets and identifiable intangibles held and used by an entity to be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. In performing the review for recoverability, entities would estimate the future cash flows expected to result from the use of the asset and its eventual disposition. If the sum of the expected future net cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset, an impairment loss would be recognized.

Measurement of an impairment loss for long-lived assets and identifiable intangibles that an entity expects to hold and use would be based on the fair value of the asset. Long-lived assets and identified intangibles to be disposed of would be reported at the lower of cost or fair value less cost to sell, except for assets that are covered by Accounting Principles Board (APB) Opinion No. 30, *Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions* (FASB, *Current Text*, vol. 1, secs. I13, I17, I22).

A final FASB Statement is expected by year end. The exposure draft was proposed to be effective for financial statements issued for fiscal years beginning after December 15, 1994; the FASB has not decided the effective date for any final statement.

Until the FASB resolves the issue of impairment of long-lived assets, auditors should obtain reasonable assurance that management has considered all relevant factors in determining whether impairment has occurred. The subjectivity of determining the need for asset valuation allowances or write-downs, combined with continued economic uncertainty, reinforces the need for careful planning and execution of audit procedures in this area.

Auditors of agricultural producers and agricultural cooperatives should be particularly alert to the fact that in some states the agribusiness industry is being greatly affected by dwindling water supplies. In California, for example, relentless population growth and increased environmental demands to protect aquatic species are daily increasing competition for the liquid that helps drive that state's economy, much to the dismay of farmers, who use 80 percent of California's available water. The result is that farm values in parts of the state are already plummeting from highs reached in the late 1980s. In addition, the water shortage threatens a permanent end to the livelihood of communities that supply farm workers, farm machinery, fertilizer and all other goods to growers. Auditors of agricultural producers or agricultural cooperatives should be alert to certain implications of the current climate that may give rise to situations involving the impairment of long-lived assets.

Restructurings

In attempts to ensure their future viability, some sectors of the agribusiness industry may be in the process of restructuring their operations. Among the actions associated with restructurings have been termination of personnel, reduction in overhead by selling or leasing excess space, and elimination of specific product lines or divisions. The auditors' attention should be focused on the impact of reductions in personnel on operations and the internal control structure, the reserves relating to current restructuring plans, and the appropriate period for reporting the costs associated with restructurings.

Auditors should refer to FASB EITF Issue No. 94-3, *Liability Recognition for Costs to Exit an Activity (Including Certain Costs Incurred in a*

Restructuring), for further guidance on the appropriate accounting for restructurings. EITF Issue No. 94-3 provides guidance on whether certain costs (such as employee severance and termination costs) should be accrued and classified as part of restructuring charges, or whether such costs would be more appropriately considered a recurring operating expense of the company. EITF Issue No. 94-3 provides guidance on the appropriate timing of recognition of restructuring charges and prescribes disclosures that should be included in the financial statements.

In addition, for publicly held agricultural producers and agricultural cooperatives, SEC SAB No. 67 (Topic 5P), *Income Statement Presentation of Restructuring Charges*, describes restructuring charges as charges that "typically result from the consolidation and/or relocation of operations, the abandonment of operations or productive assets, or the impairment of the carrying value of productive or other long-lived assets." Restructuring charges have included such costs as employee benefits and severance costs, costs associated with the impairment or disposal of long-lived assets, facility closure costs, and other nonrecurring costs associated with the restructuring. SEC SAB No. 67 (Topic 5P) requires that restructuring charges be reported as a component of income from continuing operations. As a result of recent increases in the number of companies recording restructuring charges, the SEC staff has been carefully reviewing such charges.

AICPA Audit and Accounting Literature

AICPA Audit and Accounting Guide

The AICPA Audit and Accounting Guide *Audits of Agricultural Producers and Agricultural Cooperatives* is available through the AICPA's loose-leaf subscription service. In the loose-leaf service, conforming changes (those necessitated by the issuance of new authoritative pronouncements) and other minor changes that do not require due process are incorporated periodically. Paperback editions of the guides as they appear in the service are printed annually.

Agricultural Cooperatives' Financial Reporting Checklist

The AICPA's Technical Information Service has published a revised version of *Checklists and Illustrative Financial Statements for Agricultural Cooperatives* as a tool for preparers and reviewers of financial statements of agricultural cooperatives.

Technical Practice Aids

Technical Practice Aids is an AICPA publication that, among other things, contains questions received by the AICPA's Technical Information Service on various subjects and the service's responses to those questions. *Technical Practice Aids* contains questions and answers specifically pertaining to agricultural producers and agricultural cooperatives, and is available both as a subscription service and in hardback form. Order information can be obtained from the AICPA Order Department.

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This Audit Risk Alert replaces *Agribusiness Industry Developments—1993.*

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Practitioners should also be aware of the economic, regulatory, and professional developments in *Audit Risk Alert—1994* and *Compilation and Review Alert—1994,* which may be obtained by calling the AICPA Order Department at the number below and asking for product number 022141 (audit) or 060668 (compilation and review).

Copies of AICPA publications referred to in this document can be obtained by calling the AICPA Order Department at (800) TO-AICPA. Copies of FASB publications referred to in this document can be obtained directly from the FASB by calling the FASB Order Department at (203) 847-0700, ext. 10.