I. PURPOSE

The National FFA Farm Business Management Career Development Event provides competition that fosters information assimilation, critical thinking, and problem-solving skills necessary to successfully manage a farm or pursue farm business management careers.

The National FFA Farm Business Management Career Development Event enhances and encourages opportunities for all participants to receive instruction that develops farm business management skills.

II. EVENT OBJECTIVES

The event objectives are for participants to demonstrate their ability to:

• Analyze farm/ranch business management information.
• Apply economic principles and concepts of farm business management to the decision-making process.
• Evaluate farm business management decisions.
• Work together cooperatively as a group.

The principles and concepts listed below can be included in each section event.

A. ECONOMIC PRINCIPLES RELATED TO FARM BUSINESS MANAGEMENT

1. Production functions
   a. diminishing returns
   b. profit maximizing point:
      • MFC=MVP
      • MC=MR

2. Opportunity costs
   a. alternative investment opportunities

3. Cost analysis
   a. fixed costs
   b. variable costs

4. Input combinations

5. Enterprise selection
   a. equi-marginal returns
   b. specialization and diversification

6. Supply and demand
   a. price and quantity determination
   b. elasticity of demand
   c. elasticity of supply
   d. substitute and complementary products
B. CONCEPTS RELATED TO THE USE AND ANALYSIS OF RECORDS TO MANAGE RESOURCES

1. analysis of records
   a. profit and loss
   b. financial statements
      • ratios
         solvency
         liquidity
         profitability
         labor and feed efficiency
      • inventory, assets, liabilities, net worth

2. budgeting
   a. partial budgets
   b. whole farm budgets
   c. enterprise budgets

3. cash flow analysis
   a. summary
   b. projections

4. managerial accounting

5. tax management

C. CONCEPTS AND FUNCTIONS OF RISK MANAGEMENT

1. investment analysis
   a. capital budgeting
      • time value of money
      • net present value
   b. credit
      • sources
      • loan applications
      • interest
   c. leasing of real property
   d. land acquisition and ownership
   e. machinery management
   f. insurance
      • life insurance
      • property insurance
      • crop insurance
      • health
      • liability

2. marketing analysis
   a. functions
   b. structures
   c. price determination
      • supply
      • demand
      • comparative advantages
   d. price methods
      • cash markets
      • futures and options
      • forward contracting
   e. international trade
   f. types of markets
      • perfectly competitive markets
      • few participants markets
      • one participant markets

3. market and purchasing structure
   a. cooperatives
   b. corporations
   c. individuals

4. legal analysis
   a. estate planning
   b. business organization
      • sole proprietorship
      • business organization
      • partnership
      • contract farming
   c. written agreements

5. government programs and regulations
III. EVENT RULES

1. **Team Make-up** - A team consists of three or four members. A team score consists of the total of the top three individuals’ scores on the written exam plus the team score on the team activity.

2. It is highly recommended that participants be in official FFA dress during the event.

3. Team eligibility is determined by the general rules as listed in the National FFA Career Development Event Handbook, 2001-05.

4. Copies of the complete event with answers are distributed to all who are present at the event evaluation meeting.

IV. EVENT FORMAT

A. **EQUIPMENT**

*Materials student must provide* - Two sharpened No. 2 pencils

*Provided* - The event sponsor provides a complimentary calculator to each participant. Calculators used with event are battery operated, non-programmable, silent with large keys and large displays. The calculators have only these functions—addition, subtraction, multiplication, division, equals, percent, square root, +/- key, and one memory register. No other calculators are allowed to be used during the event.

Microcomputers may be included as a tool to complete any of the sections of the event. All microcomputers will be furnished by the FFA event officials. The event superintendent will provide hardware and software information to all participating teams.

B. **TEAM ACTIVITY**

The team activity evaluates the ability of a team’s members to work together to use decision making and problem analysis skills while applying economic principles and concepts taught in farm business management.

1. Members of a team work together cooperatively to complete this section.

2. One hour is allowed for completion of the team activity. At the end of one hour, each team submits one written report for scoring.

3. The team activity involves the use of farm business management skills and the resource information used for the written exam of the current year’s event.

4. All topics in the outline under the event objectives section may be included in the team activity. Farm business management forms and procedures follow the samples and procedures as presented in Farm and Ranch Business Management published by John Deere.

5. The team activity has a value of 300 points per team and is only included in the team score. The written report is worth 200 points. During the one hour team activity section, the team is observed by event judges and evaluated on its ability to work together cooperatively as a group. The teamwork value is 100 points. The team activity evaluation criteria and scorecards are distributed at the event evaluation meeting.

C. **INDIVIDUAL ACTIVITY**

1. **Written Exam**

The written exam tests the ability of the participants to use decision making and problem analysis skills while applying economic principles and concepts taught in farm business management.

a. Each team member works independently to complete the written exam. On the written exam, each team member delivers a set of results for scoring and receives individual scores on the written exam.

b. Three hours are allowed for completion of the written exam.

c. The written exam may include any type of question (such as multiple choice, short answer, essay, and fill-in the blank).
d. All topics in the outline under the event objectives section below can be included in the written exam. Farm business management forms and procedures follow the samples and procedures as presented in Farm and Ranch Business Management published by John Deere.

e. The written exam has a value of 300 points per team member.

f. Individual scores on the written exam are used to calculate both the individual and team score.

V. EVENT SCORING

The following table summarizes the points, how they are to be used, and how much time will be allowed for each section of the event.

<table>
<thead>
<tr>
<th>POINTS</th>
<th>Team</th>
<th>Individual</th>
<th>Section</th>
<th>Time</th>
</tr>
</thead>
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<tr>
<td></td>
<td>900</td>
<td>300</td>
<td>Written Exam</td>
<td>180 Minutes</td>
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<tr>
<td></td>
<td>200</td>
<td>0</td>
<td>Team Activity</td>
<td>60 Minutes</td>
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<td></td>
<td>100</td>
<td>0</td>
<td>a. written report</td>
<td></td>
</tr>
<tr>
<td>1200</td>
<td>300</td>
<td>0</td>
<td>b. teamwork</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
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<td>TOTAL</td>
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</tr>
</tbody>
</table>

VI. TIEBREAKERS

Judges will break ties on team scores using the following sequence:

1. The score on the written section of the team activity.
2. The score on pre-selected sections of the written exam.

Judges will break ties on individual scores using the following sequence:

1. The score on pre-selected sections of the written exam.

VII. AWARDS

Awards will be presented at an awards ceremony. Awards are presented to teams as well as individuals based upon their rankings. Awards are sponsored by a cooperating industry sponsor(s) as a Special Project, and/or by the general fund of the National FFA Foundation.

VIII. REFERENCES

This list of references is not intended to be inclusive. Other sources may be utilized and teachers are encouraged to make use of the very best instructional materials available. The following list contains references that may prove helpful during event preparation. Numerous sources of materials exist, and participating teams should consult with their state’s cooperative extension service, the universities teaching farm business management, and the other material services available to the participating school.


10. Farm Business Management Career Development Event, National FFA Supply Service, National FFA, Indianapolis, IN


TECHNICAL REFERENCES


   a. Chicago Board of Trade, LaSalle at Jackson, Chicago, Illinois 60604
   b. Chicago Mercantile Exchange, 30 South Wacker Drive, Chicago, Illinois 60604
   c. Kansas City Board of Trade, 4800 West Main Street, Kansas City, Missouri 64112
   d. Mid-America Commodity Exchange, LaSalle at Jackson, Chicago, Illinois 60604

4. Doane Information Services, 11701 Borman Drive, St. Louis, Missouri 63146. Doane provides a variety of educational materials related to farm and ranch management.

5. Cooperative Extension Service in your state. Contact your local extension agent for access to farm and ranch management educational materials.
IX. EXAMPLES

SAMPLE BUDGETS

90 SOW CONFINEMENT SYSTEM (PER SOW) • FARROW TO FINISH • COMPLETE FEED MILL

<table>
<thead>
<tr>
<th>OPERATING INPUTS</th>
<th>UNITS</th>
<th>PRICE</th>
<th>QTY.</th>
<th>VALUE</th>
<th>YOUR VALUE</th>
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<td>SOW</td>
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RETURNS ABOVE TOTAL OPERATING COSTS $363.81
RETURNS ABOVE ALL SPECIFIED COSTS $-8.41

3 GROUPS OF 30 FARROWING SOWS
REPRESENTS 2.17 LITTERS PER SOW PER YEAR
DEVELOPED AND PROCESSED BY DEPARTMENT OF AGRICULTURAL ECONOMICS
OKLAHOMA STATE UNIVERSITY
### CORN (32,000 SEED POPULATION)

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<th>VALUE</th>
<th>YOUR VALUE</th>
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<th>VALUE</th>
<th>YOUR VALUE</th>
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</thead>
<tbody>
<tr>
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<td>DEPR., TAXES, INSURANCE</td>
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<td><strong>TOTAL FIXED COSTS</strong></td>
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</table>

DEVELOPED AND PROCESSED BY DEPARTMENT OF AGRICULTURAL ECONOMICS OKLAHOMA STATE UNIVERSITY
ACCOUNTS- The basic storage unit for accounting data used to accumulate amounts from similar transactions; constitutes the core data elements of the financial system.

ACCOUNTS PAYABLE- Claims against the farm or ranch business which have yet to be paid.

ACCOUNTS RECEIVABLE- Amounts owed to the farm or ranch business for products sold or services rendered.

ACCRUAL ACCOUNTING METHOD- Gross income and expenses are included in the accounting period in which earned or incurred, regardless of when payment is received. This method recognizes the importance of transactions, such as changes in inventory, changes in accrued interest, and changes in accounts payable and accounts receivable.

ACCRUED INTEREST- Interest owed but yet not paid.

ADJUSTED BASIS- The original cost of an asset plus the value of any improvement or alterations less the amount of depreciation, losses, or depletion. Adjusted basis is used to calculate depreciation and capital gains. Also called BOOK VALUE.

ADMINISTRATOR/ADMINISTRATRIX- A person legally vested with the right of administration of an estate.

ALLOCATIONS- The process of assigning costs of one segment of the organization to other responsibility centers in some systematic manner. Allocation criteria typically focus on the best objective and measurable way a particular segment provided support to other cost or profit centers of the organization.

AMORTIZATION- The repayment of a loan and the interest due with a series of equal payments over a specified period of time.

ANNUAL PERCENTAGE RATE (APR)- See INTEREST RATE.

ANNUITY- The receipt of (or the making of) a series of uniform payments over a specified period of time.

APPRAISAL- An estimate of the fair market value of personal property or real estate by a certified appraiser.

ASSETS- Resources controlled by the farm or ranch business.

AVERAGE OUTPUT OR YIELD- Total units of output divided by the number of units of input.

BALANCE SHEET- See NET WORTH STATEMENT.

BASIS- See ADJUSTED BASIS.

BASIS, MARKETING- In futures contract trading, the difference between the local cash market price and the price of the near term (expiring) futures contract.

BEAR- A market participant who believes prices are too high and will decline.

BEAR MARKET- A downward trend in market prices.

BENEFICIARY- Person named in an insurance policy to receive proceeds at death of the insured.

BENEFIT/COST RATIO- An investment analysis ratio equal to the present value of all future benefits of an investment divided by the present value of all future costs.

BOOK VALUE- See ADJUSTED BASIS.

BREAK-EVEN- The output required for revenue to equal the total of fixed and variable costs.

BREEDING LIVESTOCK- Livestock held for reproduction.

BUDGET- A schedule of expected returns and costs.

BULL- A market participant who believes prices are too low and will advance.

BULL MARKET- An upward trend in market prices.

CALL OPTION- The right to buy an underlying futures contract or publicly traded stock at a specific price before a certain date.
CAPITAL- Non-human resources used in the production of goods and services. Examples are buildings, machinery, equipment, and cash.

CAPITAL BUDGETING- The process of estimating the profitability of an investment, or comparing the profitability of two or more alternative investments. Also called INVESTMENT ANALYSIS.

CAPITAL GAIN (LOSS)- The gain (loss) realized from the sale of a capital asset when the asset is sold for more (less) than its adjusted basis.

CAPITAL LEASE- A financial agreement to purchase an asset which in turn may have a value.

CAPITALIZATION- Process for placing a current value on an asset based on its expected future earning power and the expected interest rate.

CASH- Cash or access to accounts where cash may be withdrawn within one year. Cash is a capital resource.

CASH ACCOUNTING METHOD- All income and expenses, whether received in cash or property, are included in the accounting period they are received.

CASH FLOW STATEMENT- Shows cash received and spent during an accounting period, usually one year. When calculated over several periods, cash flow shows the use and requirements for cash over time.

CASH FLOW PROJECTION- The listing of all anticipated cash inflows for a period of time, usually one year, both farm and non-farm, and all projected cash outflows, including farm operating expenses and capital outlays, along with family living expenses and tax payments.

CASH VALUE OF LIFE INSURANCE- Cash available for borrowing or redemption but not the death benefit.

CHART OF ACCOUNTS- A list of account titles used to classify transactions in the general ledger; the consistent use of these accounts is essential for both internal usage and for the creation of industry wide standard information.

COLLATERAL- Assets used to secure a loan.

COMMODITY- Raw materials or semi-processed goods that can be bought and/or sold for further processing.

COMPARATIVE ANALYSIS- The comparison of expected results from different action, approaches, or enterprises during the same time period.

COMPOUNDING- Interest received from an investment is added to the principal and interest is paid again on the total sum. It can be used to determine the future value of the amount of money that you now have. The opposite procedure from DISCOUNTING.

CONSTANT RATE OF SUBSTITUTION- When one input, financial or physical, substitutes for another at the same rate for each additional unit of input.

CONTINGENT TAX- Tax owed if all assets could be liquidated for exactly the amount shown on the balance sheet and all liabilities could be satisfied for the amount shown on the balance sheet.

CONTRACT- An informal or formal written document or oral agreement that is a binding agreement between two or more people or businesses.

COOPERATIVE- A corporation formed by a group of people—members—to provide specific products and/or services to themselves.

COOPERATIVE MARKETING- A process whereby producers pool their resources for shipment to market in an effort to increase bargaining power. It may also be used for pooling for purchase of inputs.

CORPORATION- A legal entity that can own property and conduct business. The entity is separate and distinct from its owners and managers. Shareholders own the corporation. Officers manage the corporation.

COST OF PRODUCTION- Costs of the fixed and variable inputs needed to obtain output.

COST CENTER- Support activities important to and used by profit centers (i.e., an equipment cost center supports the crop profit centers). (See PROFIT CENTER)

CREDIT- An addition to revenue, net worth or any other account.
CURRENT ASSETS- Cash, marketable securities, accounts and notes receivable, prepaid expenses, and inventories which are expected to be converted to cash within one year (or operating cycle if longer).

CURRENT LIABILITIES- Debt payments that must be paid within one year (or operating cycle if longer). Includes interest accrued on loans at the time the net worth statement is prepared, principal payments, and other obligations.

CURRENT RATIO- Current assets divided by current liabilities.

CUSTOM WORK- Farm work performed for a charge involving the use of machinery and labor provided by someone other than the farm operator.

DEBIT- An addition to an expense or asset account or a deduction from a revenue, net worth, or liability account.

DEBT- An obligation to pay in the future.

DEBT/EQUITY RATIO- Total liabilities divided by owner equity or net worth.

DEED- A document that shows the exact size, location, ownership and method of ownership of real property. (See QUIT CLAIM DEED and WARRANTY DEED)

DELIVERY MONTH- The calendar month during which a futures contract matures.

DELIVERY POINTS- Those locations designated by commodity exchanges at which a commodity covered by a futures contract may be delivered in fulfillment of the contract.

DEMAND- The quantity of the good which consumers are willing to purchase at alternative prices in a given period of time. As the price of a good increases, consumers will generally purchase less of the good, assuming everything else remains constant.

DEMAND SHIFTERS- A change in the price of substitutes, income, and/or taste will cause the demand curve to shift left or right. Such a shift will result in a change in quantity purchased at a given price.

DEPLETION- Using up or consuming assets.

DEPRECIATION- A method of prorating the cost of a capital asset over its useful life. A decrease in value of a capital asset that occurs regardless of repair and maintenance due to wear, tear, and/or obsolescence (see Farmer’s Tax Guide for tax depreciation methods).

DIMINISHING MARGINAL RETURNS- As the amount of one input is added in production, all other inputs remaining constant, the output will increase at an increasing rate, then increase at a decreasing rate, reaches a maximum, and then declines.

DISCOUNTING- A calculation used to determine the current or present value of a cost or receipt expected in the future. Discounting adjusts for the time value of money. The opposite procedure from COMPOUNDING.

DIVERSIFICATION- Engaging in several enterprises or activities to protect against the risk of failure or disasters or to fully use available resources.

DIVIDENDS- A portion of a corporation’s profits divided among its shareholders according to the number of shares each shareholder owns. The board of directors makes dividend distribution decisions.

DOUBLE ENTRY- An accounting system that keeps track of assets and liabilities simultaneously. Every credit is balanced by a debit entry.

ECONOMIES OF SCALE- A situation where the ratios of inputs used in production remain the same as the output of the farm or ranch business is increased.

ECONOMIES OF SIZE- A situation where the total cost per unit of output decreases as a result of increases in the size of the business. As farms and ranches become larger, the relative proportions of land, labor, and capital typically change.

EFFECTIVE DEMAND- The desire and ability of the consumer to obtain a commodity. The amount of a commodity that a consumer is willing and able to buy.

EFFICIENCY- A ratio of output to input. Economic efficiency refers to the ratio of output value to output cost. Production efficiency refers to the ratio of output quantity to input quantity.
Elasticity - The percentage change in one variable in response to a percentage change in another variable. Price elasticity of demand refers to the percentage change in the quantity of a good that is purchased in response to a one percent change in price. Price elasticity of supply refers to the percentage change in the quantity of a good that is supplied in response to a one percent change in price.

Enterprise - A specific process or activity producing a single output.

Enterprise Budget - An enterprise budget shows the expected returns and costs associated with a specific production activity (e.g. soybeans) while a whole farm budget shows the expected returns and costs associated with all the enterprises in a business.

Entity - Something that has a separate and distinct existence. For example, a corporation is an entity that is separate and distinct from its owners and shareholders. A corporation can continue to exist even if its owners and shareholders change.

Equilibrium Price - The price at which the quantity supplied is equal to the quantity demanded for a particular commodity at a given time and place. Also called Market Clearing Price.

Equity - The financial measure of the value of a business or person. The value is derived by subtracting the amount of total liabilities from the value of all assets under the control of a business or individual. Calculated on a cost or market value basis. Also called Net Worth or Owner Equity.

Estate - The total value a person has in all property, real and personal.

Estate Planning - The legal, economic and social act of determining the allocation of a person’s property to appropriate heirs. It takes into account the laws of wills, taxes, insurance, property, and trusts and carries out a person’s wishes for the disposition of property at death.

Executor/Executrix - A person appointed in a will or by the court system to carry out requests and dispose of all property in accordance with the laws and desires of the deceased.

Expense - Any costs associated with producing a product.

Factors of Production - Resources or inputs that are used in the production process. Also called Inputs.

Family Living Withdrawals - The total amount of money withdrawn from farm and non-farm revenues for personal consumption or use.

Farm Financial Standards Council - A committee devoted to improving and standardizing farm and ranch financial records.

Field Efficiency Ratio - The ratio of the actual performance of a farm machine to its ideal or theoretical capacity.

Firm - A business unit using resources to produce a product or service.

Fixed Assets - See Non-Current Assets.

Fixed Costs - The costs incurred by the firm that does not vary with the level of production.

Fixed Input (or Resource) - A factor production whose quantity is given and does not vary with the level of production.

Fixed Liabilities - See Non-Current Liabilities.

Fixed Ratio - Fixed costs divided by gross income.

Forward Contract - A written agreement that specifies that a certain commodity will be delivered at a particular location at a future time for an exact price.

Future Value - The value at some time in the future of an asset or liability after it has been compounded with interest for a specified period of time.
GENERAL LEDGER - The collection of all accounts maintained by an organization from which summary information is obtained to generate financial statements and other management reports and performance measures.

GOODS - Tangible items that are produced by a business or firm from combining inputs. Tangible means physical outputs that can be touched. See SERVICES. Using the term PRODUCTS refers to both goods and services.

GROSS RATIO - Total expenses (fixed and operating) divided by gross income.

GROSS RETURNS OR GROSS RECEIPTS - Gross income before expenses are deducted.

INVESTMENT - The act of putting money into business, real estate, stocks, bonds, etc. for the purpose of obtaining income or profit.

INTEREST RATE - Percent charged on principal for the use of money. Always expressed as an annual rate. Also called ANNUAL PERCENTAGE RATE (APR).

INTERNAL RATE OF RETURN - An investment 'break-even' analysis. A present worth technique that compares the present value of expected receipts to the present value of expected costs. This allows the investor to compare investments and determine if an investment is potentially profitable. It is the interest rate that makes the present value of a flow of revenues and costs equal to zero.

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INVENTORY - A physical count of all assets in a business. Usually done once every year for investment analysis or income tax purposes. An inventory may be done continuously to monitor available assets.

INVESTMENT ANALYSIS - See CAPITAL BUDGETING.

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INVESTMENT ANALYSIS - See CAPITAL BUDGETING.

LAW OF DIMINISHING RETURNS - When successive units of a variable input are added to the production process (all other inputs remaining fixed) the resulting output increases at an increasing rate, then increases at a decreasing rate, reaches a maximum, and finally decreases.

LEASE - A formal agreement by which a person (the lessor) grants the right to use an asset to another person (the lessee) for a specific time and use in exchange for cash or value.
LEVERAGE- Using borrowed capital to increase the return on equity capital. It can also increase losses in the event of decreasing price.

LEVERAGING- A strategy of acquiring assets with a large proportion of borrowed funds.

LIABILITIES- Claims against a business. The amount of money owed on a net worth statement. Also referred to as DEBTS. Liabilities are classified as current and non-current.

LIABILITY- A claim against an individual/entity to compensate a second person for a physical injury or an economic loss caused by the negligence of the first individual/entity.

LIEN- Right of creditor to have a debt satisfied from real or personal property belonging to the debtor if the debtor defaults on regular payment of the debt.

LIQUIDITY- Refers to the ease with which assets may be converted to cash. Used to measure a firm's capacity to generate sufficient cash to meet its financial obligations.

LIMITED LIABILITY- In the corporate form of business ownership, the shareholders are not personally responsible for business debts. Their liability is limited.

LIMITED LIABILITY CORPORATION (LLC)- A type of business organization that achieves the favorable tax attributes of a partnership, the limited liability of a corporation, and a high degree of flexibility to fit business needs.

LONG- The action of taking a position in which one has bought futures contracts (or the cash commodity) without taking the offsetting action. Also called going long.

LONG-TERM ASSETS- See NON-CURRENT ASSETS.

LONG-TERM LIABILITIES- See NON CURRENT LIABILITIES.

MANAGERIAL ACCOUNTING- System organized to allow the owner/manager to magnify specific segments and/or activities of the business. Managerial accounting is especially useful to those operations that have employees managing certain activities or segments of the business; want to enhance profitability; and want to more effectively manage segment assets and control costs.

MARGIN- In futures contract trading, the amount of money deposited by buyers and sellers of futures contracts to ensure performance. This serves as a performance bond rather than a “down payment.” If a futures contract moves against an investor, the broker may require additional margin payments.

MARGINAL- Added or additional.

MARGINAL COST- The change in total costs, or total variable costs, due to the production of one more unit of output.

MARGINAL FACTOR COST- The change in total factor costs due to the use of one more unit of a variable input.

MARGINAL PHYSICAL PRODUCT- The change in total output or product due to the use of one more unit of a variable input.

MARGINAL VALUE PRODUCT- The change in total value product due to the use of one more unit of a variable input.

MARKET- A place where the exchange of commodities between a buyer and a seller occurs.

MARKETING- All of the processes and services involved in moving a commodity from the producer to the ultimate consumer. The activity involved in buying and selling a product. See STAGES OF PRODUCTION.

MARKETING MARGIN- The difference between the amount consumers pay for the final product and the amount producers receive.

MARKET VALUE- Fair market value of an asset minus the selling cost. The estimated amount of cash you would receive for selling an asset today, after deducting all expenses of the sale.

MARK-UP- An increase in selling price over purchase price. Generally expressed as a percentage of the purchase price or the selling price.

MAXIMIZE RETURNS- Realizing the greatest amount of return on an investment. Occurs where MARGINAL COSTS equals MARGINAL REVENUE.
MONOPOLY- The marketplace has only one firm that is selling products or services.

MORTGAGE- The use of property, usually real estate, as collateral for a loan. Frequently used to refer to the loan itself.

NET CAPITAL RATIO- A financial measure of solvency where the total assets are divided by the total liabilities. The quotient must be above 1 for the business to be solvent.

NET FARM INCOME- The returns to unpaid family and operator labor, management and equity capital. May be calculated as total operating receipts minus total operating expenses equals net cash income minus non-cash adjustments (inventory, receivables, payables).

NET INCOME- The difference between revenue and expenses.

NET POSITIONS- In futures contract trading, the difference between the open contracts long and the open contracts short held in any one commodity. By definition always zero for the whole market.

NET PRESENT VALUE- The projected net cash flows from an investment are discounted by a specified rate and compared to the cost of the original investment. The investment is considered acceptable if the present value of the discounted projected cash flow is greater than the original investment.

NET RETURNS- The financial returns after all costs have been paid. Net returns are usually a residual as net cash income or net farm income.

NET WORTH- Total assets minus total liabilities. Also called OWNER EQUITY or EQUITY.

NET WORTH STATEMENT- A financial statement with a list of assets, liabilities, owner equity and their relationship to each other at a particular time, usually at the end of the accounting period. It is the picture of the business on a particular date. Also called BALANCE SHEET, FINANCIAL STATEMENT, or STATEMENT OF FINANCIAL CONDITION.

NON-BREEDING LIVESTOCK- Livestock whose ultimate purpose will be slaughter or resale, but not reproduction.

NON-CURRENT ASSETS- All assets controlled by the farm or ranch business having a life greater than one year.

NON-CURRENT LIABILITIES- Liabilities due past (or after) one year.

OFFSET- In futures contract trading, the liquidation of a purchase of futures through the sale of an equal number of contracts for the same delivery month, or the covering of a short sale of futures contracts through the purchase of an equal number of contracts of the same delivery month. Either action transfers the obligation to make or take delivery of the actual commodity to another trader.

OLIGOPOLY- The marketplace has a small number of firms that are selling products or services.

OPEN CONTRACTS- Open interest futures contracts that have been bought or sold without the transaction having been completed by subsequent sale or repurchase, or actual delivery or receipt of commodity.

OPERATING EXPENSES- Expenses incurred in the normal production cycle, excluding interest, depreciation, family living, income tax and investments.

OPERATING LOAN- A short-term loan made to acquire assets used to complete the production cycle. Operating or short-term loans are usually paid back in a year or less.

OPERATING RECEIPTS- Receipts generated from the normal production cycle, such as sale of crops, livestock, and custom work. Excludes money from the sale of capital assets.

OPERATING RATIO- Total operating expenses divided by operating receipts.

OPPORTUNITY COST- The cost that is measured by the income a factor of production would receive in its best alternative use.

OPTIONS- In futures contract trading, an option gives the owner the right to buy (call option) or sell (put option) a futures contract for a certain price, called the strike price, for a limited period of time.

OUTFLOWS (e.g. cash outflows)- All expenditures by a business, individual, or entity regardless of how they were generated.

OUTPUT- Unit of production resulting from the combination of variable and fixed inputs. The quantity of goods and services produced.
OVERHEAD- Expenses incurred in the operation of a business that cannot conveniently be attributed to the production of a specific commodity, product, or service.

OWNER EQUITY- Assets minus liabilities. Use this term when presenting a balance sheet for a business enterprise that contains no personal information. Also called EQUITY CAPITAL or NET WORTH.

OWNER’S EQUITY RATIO- Net worth divided by total assets. Shows the proportion of a firm’s total assets belonging to the firm’s owners.

PARITY PRICE- A hypothetical price which a farmer must receive for a commodity to be able to buy the same amount of goods and services now that it would have bought in some base-year time period.

PARTIAL BUDGETING- Comparison of projected costs and returns associated with some change in the operation of the business. The components of the partial budget are added revenue, reduced expense, added expense, and reduced revenue.

PARTNERSHIP- A business entity created when two or more persons join together to conduct a business and to share in its profits and losses.

PATRON- A member and customer of a cooperative.

PATRONAGE DIVIDENDS- In a cooperative, the portion of business profits (net operating savings) returned to a member doing business with the cooperative. The amount is determined according to the percentage of business generated by the member, not by the percentage of stock owned by the member.

PERSONAL PROPERTY- Property that is not permanently in place but is temporary or movable. In general, all property that is not real property.

PERFECT COMPETITION- A marketplace where there are many businesses producing the same product and many buyers are buying the product. No single buyer or seller can influence the price. No producer or buyer is so large as to control or perceptively affect market supply or demand. Also called pure competition.

PREPAID EXPENSES- Prepaid expenses includes amounts for feed, seed, fertilizer, chemicals, and other inputs which have been paid from the farm account, but not yet received or used in production.

PRESENT VALUE- The value, at this point in time, of income to be received at some future time. See COMPOUNDING and DISCOUNTING.

PRICE CYCLE- Changes in price which tend to follow a repetitive pattern over a period of years.

PRICE SEASONABILITY- Changes in price which tend to follow a predictable pattern within a year.

PRINCIPAL- An amount of money borrowed, invested, or used on which interest accrues.

PROBATE- The procedure or process of establishing the validity of the will of the deceased and administering the settling of an estate.

PRODUCER- A person or firm who either produces, manufactures, or creates utility in a commodity or a service as it moves through the marketing channel.

PRODUCTS- Items that satisfy the wants and needs of consumers or customers. Also called OUTPUT, GOODS and SERVICES.

PRODUCTION- A process that transforms one or more inputs into one or more products.

PROFIT- The excess of receipts over the payments for all factors of productions (accounting concept). The excess of receipts over the value of all factors of production. For management, it usually refers to a return to some residual.

PROFIT CENTER- The profit making activities within your business (i.e., pork, cattle, and certain crops, etc). (See Cost Center)

PRO FORMA- projection or estimate of future performance. As in a pro forma income statement.

PROJECTED ANALYSIS- A financial estimate of what a business or enterprise will be able to do at point in time in the future. Often it is a projected cash flow that shows expected receipts versus expected expenses.
PROPRIETORSHIP- See SOLE PROPRIETORSHIP.

PUT OPTION- The right to sell an underlying futures contract. Put does not obligate a sale, it only gives the right of the owner of the contract the right to sell.

QUANTITY DEMANDED- The quantity of a good or service consumers are willing and able to purchase at a given price in a specific time period.

QUANTITY SUPPLIED- The quantity of a good or service producers are willing and able to produce (and sell) at a given price in a specific time period.

QUICK RATIO (ACID TEST)- Cash and receivables divided by current liabilities.

QUIT CLAIM DEED- A written statement that the seller of property gives to the buyer that “gives up” only the seller’s right to the property. The property may have other claims from outside parties.

RATIO- Relationship in quantity, amount, or size between two or more things.

REAL PROPERTY- Land, and generally whatever is erected or growing upon or affixed to the land.

RECEIPTS- Cash income flowing into business.

RESOURCES- All inputs used in the production process.

RETAINED EARNINGS- The amount of net income that has accumulated in a farm or ranch business since it began that has not been withdrawn by the owner(s) or paid out as dividend to shareholders. Retained earnings are part of owner equity.

RETURN ON ASSETS (ROA)- The percentage rate earned on the total assets invested.

RETURN ON INVESTMENT- The income or profit realized from an investment. Many times we refer to percentage return on investment.

REVENUE- Gross receipts from the sales of farm or ranch products, services, participation in government programs, and other business operations. Receipts may be cash, accounts receivable, or increases in inventories.

RISK- Unexpected circumstances where the probability of an event occurring can be empirically determined.

SUBCHAPTER S CORPORATION- A business organization that is structured as a corporation and that qualifies as a corporation for all purposes except taxation.

SALVAGE VALUE- Value of an asset at the end of its useful life.

SERVICES- Intangible things that are produced by a business or firm from combining inputs. Intangible means outputs that are hard to physically touch. See GOODS. Using the term PRODUCTS refers to both goods and services.

SHORT- In futures contract trading, the action of taking a position in which one has sold futures contracts (or made a forward contract for sale of the cash commodity) without taking the offsetting action.

SHORTAGE- A condition that exists when the quantity supplied is less than the quantity demanded at some given price in a given time period.

SIMPLE INTEREST- Product of the principal, the time in years and the annual rate of interest.

SINGLE ENTRY- An accounting system that does not maintain debits and credits for each account.

SOLE PROPRIETORSHIP- A business where an individual owns, manages, assumes all the risk, and derives all the profits from a business. Also called an individually owned business.

SOLVENCY- Firm’s ability to meet long run claims against the business. Solvency indicates that total assets exceed total liabilities. To be solvent the net capital ratio should be greater than one.

SPECULATOR- A person who attempts to anticipate price changes and through market activities to make profits. In futures contact trading, a speculator is not hedging.

SPOT PRICE- The price at which a physical commodity is selling at a given time and place.

STAGES OF PRODUCTION- The steps that are followed as factors of production are combined to produce a product that is demanded by the final customer or consumer. The steps start at the very basic raw material gathering stage and progress to sale of the finished product to the customer.

STORED CROPS- Crops in inventory in which the market value of the crops have yet to be received.
SUPPLY- The amount of commodities or services that would be offered for sale by a producer or group of producers (supplier or group of suppliers) in a specific market at a given series of prices during a specific time period, assuming everything else remained constant.

SURPLUS- A condition that exists when the quantity supplied is greater than the quantity demanded at some given price.

TAXABLE INCOME- Adjusted gross income less all itemized deductions and personal exemptions.

TERM DEBT COVERAGE RATIO- This ratio measures the ability of a borrower to cover all required term debt payments. Term Debt Coverage Ratio equals (net farm income from operations + non-farm income + depreciation expense + interest on term debt - income tax expense - family living withdrawals) divided by (annual scheduled principal and interest payments). The higher the ratio is above 1, the greater is the margin to cover the payments.

THEORETICAL CAPACITY- Rate, in acres per hour, at which a machine is working when no time is lost due to turns, unused width, stopping, plugging or breakdowns.

TIME VALUE OF MONEY- A method of analyzing capital investments based on the principle that a dollar received today is valued more highly than a dollar received tomorrow or any time in the future. Two adjustments are used to determine the value of money at a point in time. COMPOUNDING is used to find the value of the money at some future date when its present value is known. DISCOUNTING is used to find the value of the money today when its value at some future date is known.

TOTAL COSTS- The sum of all costs (fixed and variable) incurred to produce a given level of production.

TOTAL REVENUE- Revenue obtained from the sale of output; found by multiplying the price per unit by the number of units sold. Also called total receipts.

TOTAL VALUE PRODUCT- The value of total output produced as the result of using a specific combination of inputs.

TOTAL VARIABLE COSTS- The costs of all variable inputs incurred to produce a given level of production.

UNCERTAINTY- Where the probability of an event occurring cannot be empirically determined. The manager does not know the future outcomes of decisions. Because of uncertainty, managers must consider risk. See RISK.

UNIT OF OUTPUT- Unit of production resulting from the combination of variable and fixed inputs.

UTILITY- Usefulness of a commodity as measured by its ability to satisfy human wants and needs.

VARIABLE COSTS- Costs which change directly with the level of production. Examples are feed, seed, fertilizer and fuel. Also called OPERATING COSTS. If the manager decided to stop production, these costs are avoidable.

VARIABLE INPUT- An input whose usage changes with the level of production.

VERTICAL INTEGRATION- Combining or coordinating under a single level of management two or more different stages of production or marketing from the initial raw product to the final product.

WARRANTY DEED- A written statement that the seller of property gives to the buyer that says the land is free from legal claims by outside parties.

WHOLE FARM OR BUSINESS ANALYSIS- A collection and evaluation of data that helps to identify factors affecting profitability and efficiency of the business.

WILL- A legal instrument used to distribute property upon death.

WORKING CAPITAL- Current assets minus current liabilities.
Team Activity Evaluation

A. TEAMWORK EVALUATION

Criteria:
- All team members were involved and contributed to the activity in an organized manner.
- Team members demonstrated effective listening and oral communication skills in resolving issues related to the presented task[s].
- Team members demonstrated cooperation in negotiating possible solutions that were relevant to the activity as presented.

Criteria:
- Team leadership roles were evident
- Team members demonstrated effective listening and oral communications skills in resolving issues related to the presented task[s]
- Team members demonstrated cooperation in negotiating possible solutions that were relevant to the activity as presented
- Each team member participated in the team activity and contributed to the results reached by the team

Criteria:
- Team demonstrated knowledge of farm business management principles and concepts and summarized consensus in the team activity answer sheet.

Points Possible

1. Team leadership roles were evident 10
2. Team members demonstrated effective listening and oral communications skills in resolving issues related to the presented task[s] 30
3. Team members demonstrated cooperation in negotiating possible solutions that were relevant to the activity as presented 30
4. Each team member participated in the team activity and contributed to the results reached by the team 30

Grand Total: 100

Summary of Evaluator’s Scores

Evaluator Points Earned
1. ____________________________________________________________
2. ____________________________________________________________
3. ____________________________________________________________
4. ____________________________________________________________

Average Evaluator Score

[Maximum of 100 points]

B. TEAM ACTIVITY SOLUTION EVALUATION [ANSWER SHEET]

Criteria:
- Team demonstrated knowledge of farm business management principles and concepts and summarized consensus in the team activity answer sheet.

Points Possible

1. Team Activity Answer Sheet 200

Summary of Evaluator’s Scores

Evaluator Points Earned
1. ____________________________________________________________
2. ____________________________________________________________
3. ____________________________________________________________
4. ____________________________________________________________

Average Evaluator Score

[Maximum of 200 points]

Team Activity Total Score

A. Teamwork Evaluation Score
B. Team Activity Solution Score

TOTAL SCORE FOR TEAM ACTIVITY

[Maximum of 100 points]