

Ag Business Management

A Special Project of the South Dakota FFA Foundation

Important Note: Please thoroughly read the General Rules at the beginning of this handbook for complete rules and procedures that are relevant to all South Dakota FFA Career Development Events.

Purpose

The purpose of the FFA Ag Business Management Career Development Event is to foster information assimilation, critical thinking, and problem-solving skills which are critical for successful business management. The skills gained from this event can be used to successfully manage a farm, pursue agricultural business careers, and can also be applied to personal financial management. The Ag Business Management CDE enhances and encourages participants to develop business management skills.

Event Rules

Four-member teams will work individually.

A team score consists of the total of the top three individual scores.

Non-programmable calculators will be provided. Participants will not be allowed to provide their own.

Objectives

- A. Economic Principles Related to Business Management that can be covered in this CDE:
 - a. Production Functions
 - i. Diminishing Returns
 - ii. Profit Maximizing Point:
 - 1. $MFC = MVP$
 - 2. $MC = MR$
 - b. Opportunity Cost
 - i. Alternative Investment Opportunities
 - ii. Alternative Use of Resources
 - c. Cost Analysis
 - i. Fixed Costs
 - ii. Variable Costs
 - d. Input Combination
 - e. Enterprise Selection
 - i. Equi-Marginal Returns
 - ii. Specialization and Diversification
 - f. Supply and Demand
 - i. Price and Quantity Determination
 - ii. Elasticity of Demand
 - iii. Elasticity of Supply
 - iv. Substitute, Complementary, and Competitive Products
 - v. Comparative Advantage
 - g. Types of Markets
 - i. Perfectly Competitive Markets
 - ii. Oligopoly Markets

- iii. Monopolistic Competitions
 - iv. Monopoly Markets
- B. Concepts Related to the Use and Analysis of Records to Manage Resources
- a. Analysis of Records
 - i. Financial Statements
 - 1. Balance Sheet
 - 2. Income Statement
 - 3. Statement of Owner's Equity
 - 4. Statement of Cash Flow
 - ii. Financial Statement Ratios
 - 1. Solvency
 - 2. Liquidity
 - 3. Profitability
 - 4. Repayment Capacity
 - 5. Financial Efficiency
 - b. Budgeting
 - i. Partial Budgets
 - ii. Whole Farm Budgets
 - iii. Enterprise Budgets
 - c. Cash Flow Analysis
 - i. Summary
 - ii. Projections
 - d. Managerial Accounting
 - e. Tax Management
 - i. Assets
 - ii. Liabilities
 - iii. Receipts
 - iv. Expenses
- C. Concepts and Functions of Risk Management
- a. Financial
 - i. Capital Budgeting
 - 1. Time Value of Money
 - 2. Net Present Value
 - ii. Credit
 - 1. Sources
 - 2. Loan Applications
 - 3. Interest
 - 4. Collateral
 - iii. Leasing of Real Property
 - iv. Land Acquisition and Ownership
 - v. Machinery Management
 - vi. Insurance
 - 1. Life Insurance
 - 2. Property Insurance
 - 3. Crop Insurance
 - 4. Health Insurance

- 5. Liability Insurance
- b. Marketing
 - i. Functions
 - ii. Price Methods
 - 1. Cash Markets
 - 2. Futures and Options
 - 3. Contracting
 - iii. Trade
 - 1. Domestic
 - 2. International
- c. Legal
 - i. Estate Planning
 - ii. Business Organization
 - 1. Sole Proprietorship
 - 2. Cooperatives
 - 3. Corporations
 - 4. Partnerships
 - 5. Limited Liability Company or Partnership
 - iii. Written Agreements
- d. Production
 - i. Government Programs and Regulations
 - ii. Weather
 - iii. Disease
- e. Human Resources
 - i. Training Programs
 - ii. Hiring Employees
 - iii. Employee Policies and Procedures
 - iv. Compensation

Event Format

The Ag Business Management CDE will consist of two parts, a written test and problem-solving analysis.

Part I: Written Test

The written test is designed to test team members' understanding of the application of economic principles in farm management.

Multiple choice questions, some related to problem situations, form the basis for testing the understanding. In general, questions are designed to measure understanding of an application rather than definition identification.

Each team member will complete the written test individually.

There will be 50 multiple choice questions, each worth 2 points for a total of 100 points.

One hour (60 minutes) will be allowed for the completion of the written test.

Part II: Problem Solving Analysis

The problem solving analysis portion is designed to determine each team members' ability to apply principles of farm management to the decision making process by actual problem analysis and to justify the decision made.

Team members work individually, and each individual will complete all of the problems assigned.

Problems to be used will be in multiple-choice format:

- Two partial budgets
- One total farm budget
- One analysis of business

Related problems examples: hedging, balance sheet, tax management, or asset acquisition

Two hours (120 minutes) will be allowed for completion of this portion.

Two hundred (200) points maximum will be allowed for this section of the CDE.

In scoring problems, full credit will be given for accuracy; however, partial credit will be given for answers within an allowable range which will be provided with each problem.

Scoring

A. The following table summarizes the scoring process:

	Possible Points
Written Test	100
Problem Solving Analysis	200
Total Individual Score	300
Total Team Score (3 participants count)	1200

Tiebreakers

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

1. The score on the problem solving analysis.
2. The score on pre-selected sections of the written exam.

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

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

References (for the latest updates, see the National FFA Farm Business Management Rules)

A. Primary:

1. Jobs, Steward, Casey and Purcell (2004). *Farm and Ranch Business Management* (5th edition). Deere & Company, John Deere Publishing, East Moline, Illinois 61244. <http://www.deere.com/publications>
2. Kay, Edwards and Duffy. *Farm Management*. McGraw-Hill Book Co., New York, NY. (6th edition, 2008)
3. CDE NCQ, National FFA Core Catalog, Indianapolis, IN.
<http://shop.ffa.org/cde-qasc1413.aspx> (Published annually following the CDE.)
Good source for examples of enterprise budgets and financial statements used in the CDE.

B. Secondary:

1. Boehlje and Eidman (1984). *Farm Management*. John Wiley and Sons, New York, NY. Bowers, Love and Kletke (1994). *Machinery Replacement Strategies*. Deere & Company, John Deere Publishing, East Moline, Illinois 61244. Deere & Company. <http://www.deere.com>
2. Dicks, Michael (1998). *Agricultural Policy and How it Affects You*, Deere & Company, John Deere Publishing, East Moline, Illinois 61244.
3. Oltmans, Klinefleter, and Frey (2001) *Agricultural Financial Reporting and Analysis*. Doane Agricultural Services, St. Louis, MO.
4. Purcell, Wayne D. (1995). *Marketing Agricultural Commodities*. Deere & Company, John Deere Publishing, East Moline, Illinois 61244.
5. Wilson, Purcell, Burton, and Wahlberg (1994). *Managing Livestock Production*. Deere & Company, John Deere Publishing, East Moline, Illinois 61244.
- a. Wilson, Purcell, Burton, and Wahlberg (1994). *Managing Agricultural Commodities*. Deere & Company, John Deere Publishing, East Moline, Illinois 61244

C. Technical References:

- a. *Farmers Tax Guide*, published by the Department of the Treasury, Internal Revenue Service, can be obtained from the IRS Forms Distribution center in your state or the IRS website. <http://www.irs.gov/publications/p225/index.html>
- b. Farm Financial Standards Council, Financial Guidelines for Agriculture Producers, 1998 <http://www.ffsc.org/>.
- c. Assorted educational materials are available on hedging, forward contracting, and commodity futures trading from any of the following addresses.
 - i. Chicago Mercantile Exchange, 30 South Wacker Drive, Chicago, Illinois 60604. <http://www.cmegroup.com>
 - ii. Kansas City Board of Trade, 4800 West Main Street, Kansas City, Missouri 64112
 - iii. New York Cotton Exchange, New York Mercantile Exchange Building, One North End Avenue, New York, NY 10282-1101
 - iv. New York Mercantile Exchange, Commodity Exchange Ctr., One North End Avenue, New York, NY 10282-1101
- d. Doane Agricultural Services, Vance Publishing Corp., 77 Westport Plaza, #250, St. Louis, MO 63416. Doane provides a variety of educational materials related to farm and ranch management.
- e. Cooperative Extension Service in your state. Contact your local extension agent for access to farm and ranch management educational materials.