

Key

State _____ Team Number _____

Please mark your state and team number in the blank in the upper right corner of each page

Each team will complete and turn in only one copy of these pages. Other copies can be used to make notes and calculations

**2009 National FFA Farm Business Management
Career Development Event
Team Activity**

Expectations:

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.

Evaluation:

The team activity portion is evaluated as follows:

- involve all members of the team
- organize the team effort
- communicate with each other in resolving issues relating to the current situation
- reach consensus and agreement
- complete the analysis of possible alternatives and solutions
- communicate and submit in writing the team's consensus of solutions.

Team Activity Focus:

1. Murphy Farms business organization, structure and risk management.
2. Financial aspects of the feedlot component of the Murphy Farms business.

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FRBM denotes the Farm and Ranch Business Management textbook 2004 published by John Deere

1. The Murphy brothers are planning to change the structure of their farm business from a partnership to a limited liability company (LLC). It will be taxable as a corporation.

a. What are advantages of changing to an LLC? (List three possible answers) (15 points)

(5 points each)

Economic reasons (as it relates to additional capital)

Separation of ownership and management

Ease of continuing in business

Easily transferred ownership

Opportunity for tax saving

Limited liability

Source: FRBM pg. 10-7, 10-8

b. What are disadvantages of changing to an LLC? (List two possible answers) (10 points)

(5 points each)

Complicated and costly to organize

Income tax laws are unique

May be complicated and expensive to terminate

Loss of individual freedom of action

Source: FRBM pg. 10-8

2. The Murphy brothers are currently operating their business as a partnership

a. What are advantages of operating their business as a partnership? (List two possible answers) (10 points)

(5 points each)

Pooling of capital

Pooling knowledge and experience of partners

Labor and management responsibilities can be divided between partners

Each member of the partnership is subject to income tax, not the partnership

Source: FRBM pg. 10-4, 10-5

b. What are disadvantages of operating their business as a partnership? (List

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two possible answers) (10 points)

(5 points each)

Each member of the partnership is subject to liability for all debt

Agreement must be reached for division of assets, liabilities, profits and losses

Death of a member of the partnership dissolves the partnership

Source: FRBM pg. 10-4, 10-5

3. List the three primary methods of organizing farm businesses. (15 points)

1. Sole proprietorship

2. Partnership

3. Corporation

Source: FRBM pg. 10-2

4. What factors should be considered when deciding on one of the three business organization models? List 4 factors. (20 points)

1. Who owns the business organization

2. The ability to acquire resources such as land, labor and capital

3. Expected life of the organization

4. The liability of the owners

5. Who participates in management decisions

6. The compensation for management

7. Ease in transfer of business ownership

8. Tax planning issues (income and estate taxes)

9. Issues related to estate planning

Source: FRBM pg. 10-2

5. If the Murphy brothers form an LLC, they plan for the LLC to rent land from individual stock holders, or from neighbors. The LLC will not own land.

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a. In what way would this situation be an advantage to the LLC? (List three advantages) (15 points)

More capital available for business operation

Less interest expense on borrowed money

No need to acquire long term debt for land

b. What are disadvantages of the LLC not owning any land? (List three disadvantages) (15 points)

There is the potential that rented land could be unavailable

Potential increased costs of rented land

Potential limitations by owner/landlord in how rented land is managed

c. Why would the rate of return on assets be greater on rented land compared to owned land? (10 points)

The total assets will not be as great because there will be no value for land included in the total assets

6. How would a farm family like the Murphy brothers go about forming an LLC? (10 points)

Secure application and file with a governmental agency

Consult a attorney with expertise in business/agricultural law

Consult a tax accountant

Contact other professionals with expertise (Farm management / Extension specialist or other consultant)

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7. The Murphy brothers are discussing the need for insurance for the protection of their business. What are four common kinds of insurance coverage needed by a farm business? (20 points)

1. Life insurance
2. Accident and health insurance
3. Property and Casualty insurance
4. Liability insurance
5. Crop insurance

Source: FRBM pg. 11-13

8. According to the enterprise budgets for corn (R-10) and for alfalfa hay (R-11), the Murphy brothers have greater returns per acre on corn than they do on alfalfa hay. With the information these budgets provide why do they raise alfalfa hay? List at least two reasons. (10 points)

1. It may be an important part of their crop rotation
2. They may be raising alfalfa hay on ground not suitable for corn production
3. The alfalfa hay crop may be produced on soil that requires soil conservation
4. The alfalfa hay is raised as feed

9. The enterprise budgets for the slaughter steer enterprise (R-14) and the dairy beef enterprise (R-15) show the same figure for fixed cost per head. This is unusual because one head of dairy beef can be fed in 520 days while 2.4 slaughter steers could be fed out in the same time period.

a. How would you expect the fixed cost per head between these enterprises to differ? (15 points)

You would expect the fixed cost per head to be less with the beef enterprise

b. What is a reason for the fixed cost per head being the same. (10 points)

The total facility (fixed) cost for the slaughter steer enterprise is greater (2.4 times) than the dairy beef enterprise.

c. This scenario seems unusual. How would the "economy of scale" normally affect fixed and variable costs of an enterprise? (15 points)

Variable cost would normally remain the same and fixed cost would decrease per unit of production