USDA Agricultural Management Seminar

TEXAS A&M UNIVERSITY COMMERCE

Basic Farm Activities and Terminology

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Seminar

Business Administration Building Room 343
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November 19, 2019

Basic Activities

- This presentation is going to explain the following activities:
  - Basic functions to make a good management of a farm (e.g., a good farm manager).
  - Farm business activities.

OUTLINE

- Basic Functions of Management
  - Planning, Implementation, Control, Adjustment
- Strategic Versus Tactical Farm Management
- Strategic Management Decision Making Process
- Tactical Management Decision Making Process
- Farm Business Activities
  - Production, investment, and financing activities
- Basic Accounting Terms

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What are the basic functions to make a good management of a farm?

Functions of Management

- Planning
- Implementing
- Controlling
- Adjusting

Plan

Planning means choosing a course of action.

To plan, a manager must establish goals, identify resources, and allocate the resources to competing uses.

Implementation

Once a plan is developed, it must be implemented, or set in motion.

To implement, the manager must acquire the resources needed for the plan and oversee the process. Coordinating, staffing, purchasing, and supervising fit under this function.

Control

Control is the "feedback" function.

To control, the manager must monitor results, record information, compare results to a standard, and take corrective action as needed.

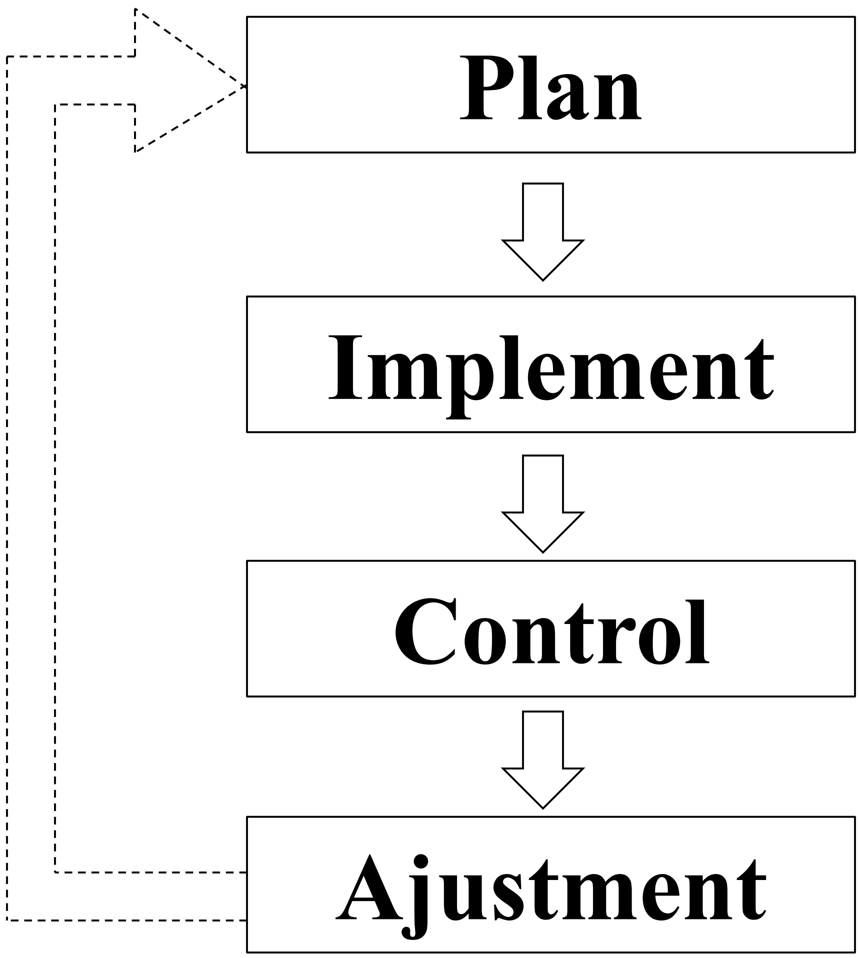
Adjustment

If outcomes are not meeting the objectives, adjustments need to be made.

Adjustment may involve fine-tuning the technology or changing enterprise.

In some cases, additional information will be needed to diagnose the problem.

Flow of Actions



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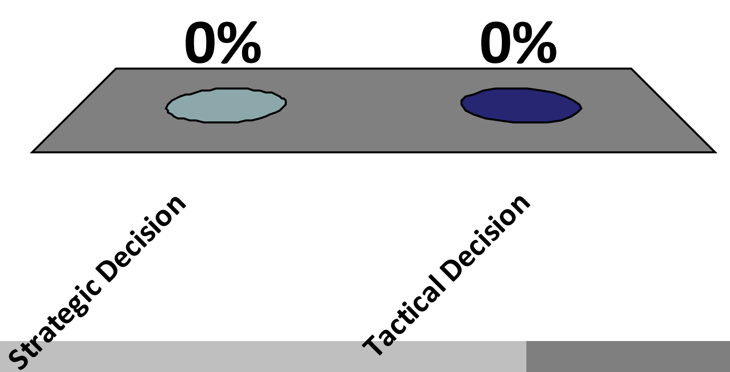
Strategic Versus Tactical Farm Management

- Managing a farm can be divided into two broad categories: strategic management and tactical management.
- **Strategic management** consists of charting the overall long-term course of the business
- **Tactical management** consists of taking short-run actions that keep the business moving along that course until the destination is reached

Strategic or Tactical Decision?

Deciding whether a field is too wet to till.

A. Strategic Decision
B. Tactical Decision

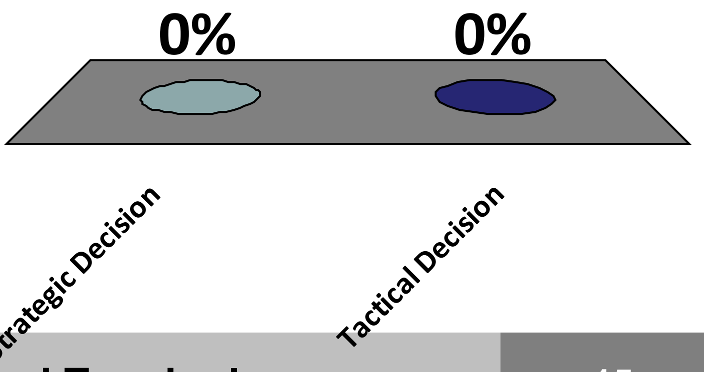


Strategic or Tactical Decision?

Deciding whether to specialize in beef or dairy production.

A. Strategic Decision

B. Tactical Decision

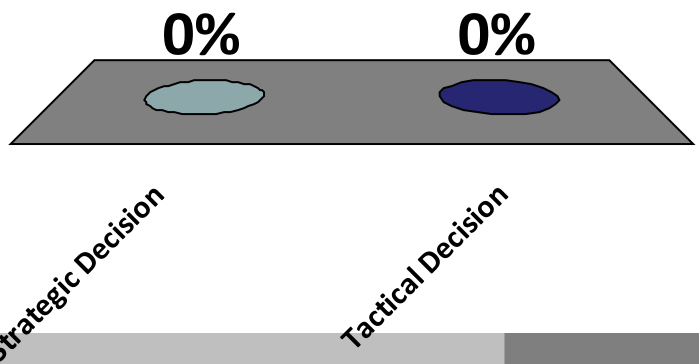


Strategic or Tactical Decision?

Deciding whether to share the business with your brother-in-law.

A. Strategic Decision

B. Tactical Decision

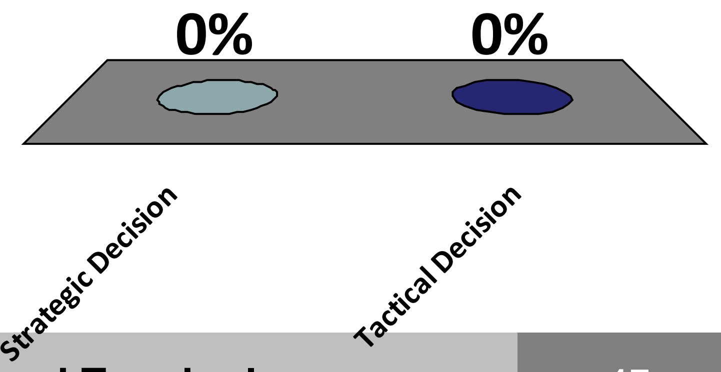


Strategic or Tactical Decision?

Deciding whether to sell the bales of hay today or wait a couple of months.

A. Strategic Decision

B. Tactical Decision



Why is it important to distinguish between strategic management and tactical manegement?

- It is important to distinguish between strategic and tactical management because the way you about making these decisions is slightly different.

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Steps in Strategic Management

1. Define the mission of the business
2. Formulate the goals for the farm and family
3. Assess the resources available to the business (internal scanning)
4. Survey the world surrounding the business (external scanning)
5. Identify and select appropriate strategies
6. Implement and refine the selected strategies

1. Define a Mission

- What is a Mission?
  - An enduring statement of purpose that distinguish one organization from other similar enterprises, the mission statement is a declaration of an organization's "reason for being"

2. Formulate Goals

- Goals vary from farmer to farmer
- Often farmers have multiple goals
  - Managers must decide which goals are more important
  - It is important not to have conflicting goals
- Goals vary according to age, financial status, and experience.

Goals

- Goals should be written
- Goals should be specific
- Goals should be measurable
- Goals should have a timetable

Possible Goals

Are these goals written, specific, measurable, and timetable?	Written	Specific	Measurable	Timetable
Survive, stay in business				
Maximize profits				
Maintain or increase standard of living				
Increase equity				
Maintain stable income				
Pass farm to next generation				
Increase free time				
Increase farm size (“growth”)				
Maintain or improve environmental quality				

3. Assessing Resources (Internal Scanning)

- **Physical resources:** land, buildings, fences, breeding livestock, machinery and equipment, established perennial crops
- **Human resources:** skills of the operator and other employees, likes and dislikes of individuals
- **Financial resources:** cash, other capital and available credit

4. Surveying the Business Environment (External Scanning)

- It consists on analyzing the environment in which the farm operates.
  - Trends in farm products
    - Lean meat
    - High-protein grains
    - Organic products
- The major types of crops produced haven't changed much, but their characteristics are changing
- A change may provide an opportunity or a threat

5. Identifying and Selecting Strategies

Some businesses have more potential routes for reaching their goals than others because resources are more flexible.

As the number of alternative uses for resources increases, so does the complexity of the manager's decisions.

Four general agribusiness strategies:
-Low volume, high value (high margin)
-High volume, low value (low margin)
-Specialty product or service provider
-Part-time operator

6. Implementing and Refining

- Manager must formulate action steps to implement the plan
- Manager must decide which information to collect to evaluate the success or failure of the plan
- Strategic management is an ongoing activity

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Tactical Decision Making

1. Identify and define the problem or opportunity
2. Identify alternative solutions
3. Collect data and information
4. Analyze the alternatives and choose one
5. Implement the decision
6. Monitor and evaluate results
7. Accept responsibility for the decision

Remarks

- Making good decisions (strategic or tactical) make the difference between making a profit or a loss.
- The steps outlined in the decision making process may look trivial; however, they make the difference between making a good and a bad decision.
- Studies have shown that often the difference between having a profit or a loss (succeeding or not) is not related with available resources but with the ability to make good decisions.

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What are farm business activities?

Farm Business Activities

- Three basic farm business activities
  - Production activities
  - Investment activities
  - Financing activities

Production and Operating Activities

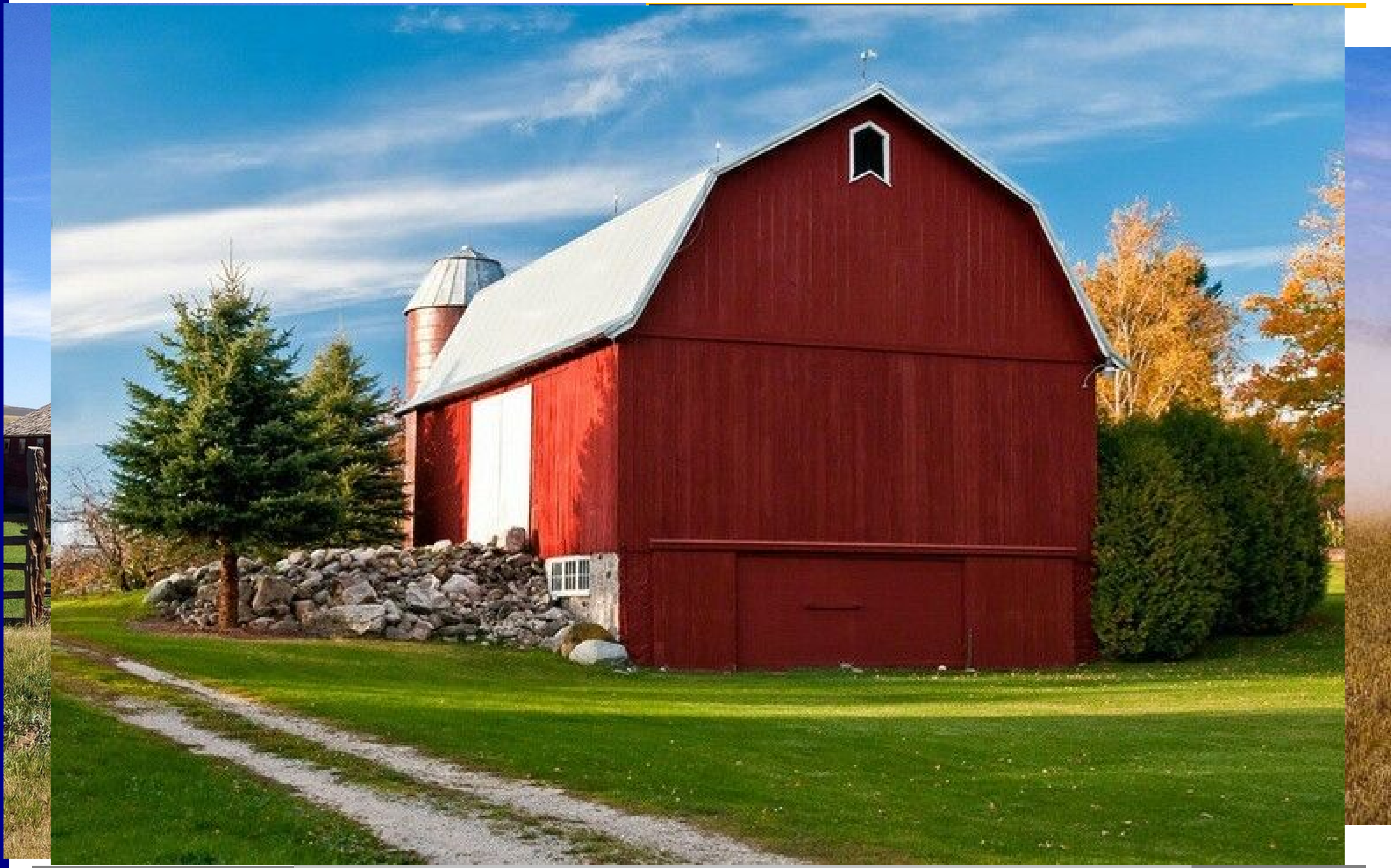
- These accounting transactions involve activities related to the production of crops and livestock.
- Revenue from product sales or other farm revenue is included here, as are production expenses.
- Examples of production activities
  - Sell crops
  - Buy fertilizer
  - Pay farm workers
  - Work the land

Production Activities

Investment Activities

- These activities relate to the purchase, depreciation, and sale of long-lived assets, such as land, equipment, or breeding livestock.
- Records should include purchase date and price, annual depreciation, book value, current market value, sale date and price, and gain or loss when sold.

Investment Activities

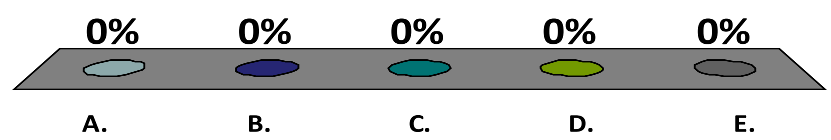


Financing Activities

- These transactions relate to borrowing money, and paying the interest and principal on loans.
- Financing activities include money borrowed to finance new investments and money borrowed to finance production activities.

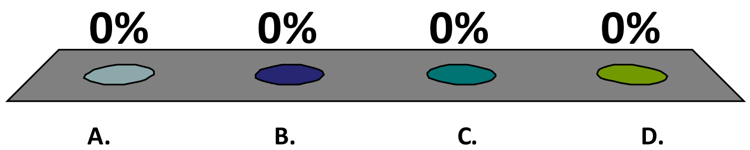
Which of the following activities are production or operation activities?

A. Purchase a tractor in cash
B. Pay cash for tractor repairs
C. Pay cash for land preparation
D. Make a loan to buy land next door
E. Only (B) y (C)



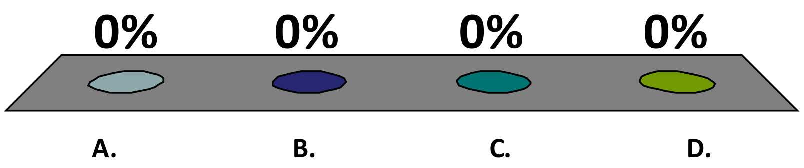
Which of the following activities are investing activities?

A. Purchase a tractor in cash
B. Pay cash for tractor repairs
C. Pay cash for land preparation
D. Make a loan to buy land next door



Which of the following activities are financing activities?

A. Purchase a tractor in cash
B. Pay cash for tractor repairs
C. Pay cash for land preparation
D. Make a loan to buy land next door



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Basic Accounting Terms

- Asset
  - Cash
  - Equipment
  - Land
  - Supplies
  - Inventory
  - Account receivable
- Liability
  - Accounts payable
  - Notes payable
  - Salaries payable
  - Interest Payable
- Owner's Equity
  - Expenses
  - Revenues
  - Owner's Drawing
  - Owner's Capital
- Debit
- Credit
- Revenue
- Expense
- Profit
- Loss

Asset

Assets are items of value, tangible or financial.

Assets are the resources owned by a business.

Examples include cash, equipment, machinery, land, bank accounts, buildings, grain, livestock, etc.

Liability

Liabilities are debts or other financial obligations that must be paid at some point in the future.

Examples include accounts payable, notes payable, salaries payable, interest payable, current portion of long-term debt, taxes payable, etc.

Owner's Equity

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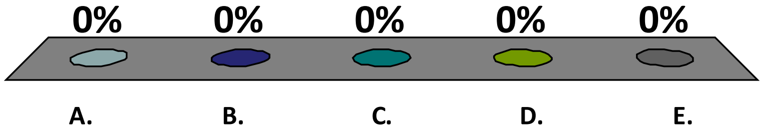
- The difference between business assets and business liabilities. It represents the net value of the business to the owner(s) of the business.
- Owner's equity is what remains after selling all assets and paying all liabilities. It's what belong to the owner(s) after all assets are sold and all liabilities are paid. It's the ownership claim on total assets.

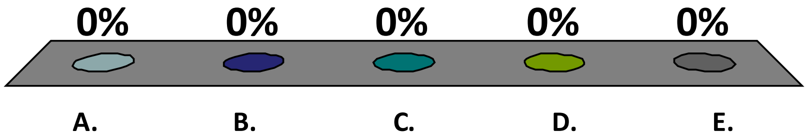
Which of the following is **NOT** an Asset?

A. Milo on hand
B. A tractor
C. A dairy cow
D. Microsoft's stocks
E. An account payable



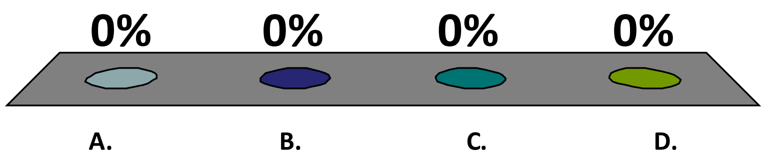
Which of the following is a Liability?

A. A barn
B. Fences
C. An account receivable
D. A saving account
E. The farm mortgage



What is Owner's Equity?

A. The sum of the value of all farm's debt
B. The sum of the value of all farm items.
C. The difference between (A) and (B) above.
D. None of the above.



Accounts receivable Vs. Accounts payable

- **An account receivable** is revenue for a product that has been sold or a service provided but for which no payment has yet been received. An example would be custom work for a neighbor who has agreed to make payment at a future time.
- **An account payable** is an expense that has been incurred but not yet paid. Typical accounts payable are for items charged at farm supply stores where the purchaser is given 30 to 90 days to pay the amount due.

Inventory

- The physical quantity and financial value of products produced for sale that have not yet been sold. For example, crops, livestock, bales of hay.

Debit and Credit

- A **debit** is an accounting entry in the left-hand side of a double-entry ledger
- A **credit** is an accounting entry in the right-hand side of a double-entry ledger.

Revenues and Expenses

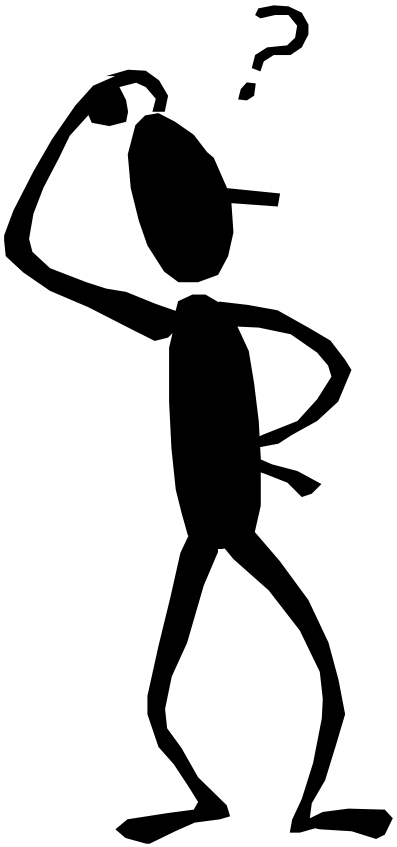
- A **revenue** is the value of products and services produced by a business during an accounting period. Revenue may be either cash or noncash.
- An **expense** is the cost or expenditure incurred in the production of revenue.

Profits and Losses

- There is a **profit** when revenues exceed expenses.
- There is a **loss** when expenses exceed revenues.

Confused?

Questions?



Thanks!