Lesson B4–5

Completing Various Agribusiness Forms

Unit B. Starting and Operating the Agribusiness

Problem Area 4. Operating the Agribusiness

Lesson 5. Completing Various Agribusiness Forms

New Mexico Content Standard:

Pathway Strand: Agribusiness Systems

Standard: **III:** Apply generally accepted accounting principles and skills to manage budget, credit, and optimal application of AFNR business assets.

Benchmark: **III-A:** Use key accounting fundamentals to accomplish dependable bookkeeping and associated files.

Performance Standard: **5.** Prepare and interpret financial statements (e.g., balance sheet, profit/loss statement, cash flow statement). **6.** Prepare tax forms (e.g., W-4, I9, Depreciation, 1099, Workers Compensation). **7.** Determine cost of doing business. **9.** Analyze investment options (e.g., buy, lease, finance, risk).

Student Learning Objectives. Instruction in this lesson should result in students achieving the following objectives:

1. Identify the components of a legally enforceable contract.
2. Identify common legal documents used in business.
3. Identify the common components of a lending/credit application.
4. Identify the types and components of lease agreements.

List of Resources. The following resources may be useful in teaching this lesson:

Recommended Resources. One of the following resources should be selected to accompany the lesson:

Moorman, Jerry W. and James W. Halloran. *Entrepreneurship.* Cincinnati, Ohio: South-Western Publishing Co., 1993. (Chapter 16)

Newman, Michael E. and Walter J. Wills. *Agribusiness Management and Entrepreneurship.* Danville, Illinois: Interstate Publishers, Inc., 1994. (Chapters 3 & 7)

Other Resources. The following resources will be useful to students and teachers:

Ristau, Robert A. et al. *Introduction to Business.* Cincinnati, Ohio. South-Western Educational Publishing, 1997. (Chapter 27)

Steward, Jim, Raleigh Jobes, et al. *Farm and Ranch Business Management*. Moline, Illinois: Deere & Company Service Publications Department, 1992. (Chapter 11)

List of Equipment, Tools, Supplies, and Facilities

Writing surface
Overhead projector

Terms. The following terms are presented in this lesson (shown in bold italics):

Bill of sale
Capacity
Cash lease
Consideration
Contract
Contractual offer
Deed
Installment purchase agreement
Installment sale agreement
Juristic person
Lease
Minors
Mortgage
Principal
Promissory note
Share lease
Statute of Frauds
Title

Interest Approach. Use an interest approach that will prepare the students for the lesson. Teachers often develop approaches for their unique class and student situations. A possible approach is included here.

Ask your students to define a contract. Ask them what is the purpose of a contract. Use this discussion to begin the lesson on important forms using in business.

Summary of Content and Teaching Strategies

Objective 1: Identify the components of a legally enforceable contract.

Anticipated Problem: What are the components of a legally enforceable contract?

I. A ***contract*** is a legally enforceable agreement negotiated between two or more persons. A person may be either a juristic person or a human being. A ***juristic person*** is an entity, such as a corporation, created by law. A legally enforceable contract fulfills requirements in five areas:

A. Agreement (Offer and Acceptance)—A contract must provide for an offer by one party and an acceptance by another. A ***contractual offer*** must be an offer that is intended to be legally binding. The intent is judged to be legally binding if a reasonable person would consider it binding. The offer must also be in definite terms and communicated in ordinary fashion. An acceptance must be clear and positive. The party accepting an offer must agree to all of the terms of the offer unconditionally. The acceptance may be communicated to the party making the offer in any fashion unless a specific method of acceptance is designated.

B. Legality—A legally enforceable contract must have a lawful objective. If the satisfaction of a contract requires breaking the law or violating a statute or policy, it does not have a lawful objective.

C. Consideration—***Consideration*** is defined as value given and value received as a result of contractual agreement. Each of the parties involved in a contract must receive value. Contract law does not require that the considerations be equal. Something that has already been done or something that a person has a legal duty to do is not consideration. NOTE: There are exceptions to the consideration requirement.

D. Contractual Capacity—***Capacity*** is the ability to fully understand and comprehend the requirements of a contract as specified by law. All parties to a legally enforceable contract must meet the legal requirements for capacity. Among those who do not meet the legal requirements for capacity are ***minors*** (persons under age 21), persons who are under the influence of alcohol or drugs when the agreement is made, or persons who are mentally deficient. Minors can choose to fulfill the terms of a contract, but since they do not meet the requirements for legal capacity, are not required to do so.

E. Contractual Forms—Contracts may be verbal or written; both are legally enforceable. Some contracts, however, must be written, such as contracts that are regulated by the

Statute of Frauds. This law requires certain contracts to be written and signed. The Statute of Frauds monitors several types of contracts. They are:

1. Sale of land.
2. Sale of goods exceeding $500.
3. Contract for services that cannot be performed within one year.
4. Promise to assume the debt or legal responsibility of another.
5. Promise to the administrator or executor of an estate to assume responsibility.

A variety of techniques may be used to assist students in mastering this objective. Students should use text materials to help identify the components of a legally enforceable contract. Chapter 16 in Entrepreneurship is recommended.

Objective 2: Identify common legal documents used in business.

Anticipated Problem: What are the common legal documents used in business?

II. In the course of business a number of documents or contracts may be necessary. Some common forms are:

A. Mortgage—A ***mortgage*** is a legal document giving the lender a claim against the property if the ***principal*** or amount borrowed, interest, or both are not paid as agreed.

B. Promissory note—A ***promissory note*** is a written promise to repay based on the debtor's excellent credit rating.

C. ***Deed***—A document which transfers ownership from one party to another.

D. ***Bill of sale***—A written statement transferring the ownership of something by sale.

E. ***Title***—A document stating ownership of a property.

F. ***Installment purchase agreement***—a purchase agreement made with all or part of the payment made at regular times over a specified period.

G. ***Installment sale agreement***—A document stating the sale of property for which a series of payments is made over a period of time.

H. ***Lease***—A contract by which an owner gives to a tenant the use of property.

A variety of techniques may be used to assist students in mastering this objective. Students should use text materials to help identify the common legal documents used in business. Chapter 7 in Agribusiness Management and Entrepreneurship is recommended.

Objective 3: Identify the common components of a lending/credit application.

Anticipated Problem: What are common components of a lending/credit application?

III. A business preparing to borrow money should recognize that this borrowing process might be one of the most important selling operations in which the business participates. Careful consideration to the types of information required to do a good selling job must be done.

Lending applications will vary from one lending institution to another; however, there is some basic information a lender will need.

A. How the loan proceeds would be used and what impact the changes would have on the capital position and earnings of the business. Basically, what will you do with the money and how will it affect your business?
B. A discussion of how this business is adjusting to the changing technology of its industry and customers.
C. Characteristics of the business's customers, such as size of operation and shifts in volume of business over the last several years.
D. A statement on the availability and stability of the markers to which the business sells its products and from which it buys products.
E. The adequacy of facilities to meet the desired goals of the business.
F. A projection of capital requirements, earnings, and cash flow during the lifetime of the proposed loan.
G. Managerial capacity of the business, which includes information as to the age and experience of those in management positions. Also include the types of training programs scheduled to keep these people current with what is happening in their field.
H. A list of available collateral to support such a loan.
I. A series of audit reports from the past 3 to 5 years to reflect the financial strength of the business.

A variety of techniques may be used to assist students in mastering this objective. Students should use text materials to help identify the common components of a lending/credit application. Chapter 3 in Agribusiness Management and Entrepreneurship is recommended.

Objective 4: Identify the types and components of lease agreements.

Anticipated Problem: What are the types and components of lease agreements?

IV. A lease may be oral or written. Well-written leases can lead to better understanding and closer cooperation between landowners and tenants. There are several kinds of leases. The most common kinds of agricultural leases are:

A. Cash Lease—A ***cash lease*** is one in which a fixed price has been set for use of the property.
   1. A cash lease may be a good option for:
      a. Any small business.
      b. A landlord that lives a distance away from the operation.
   2. A landlord may prefer a cash lease because there is:
      a. Less risk and guaranteed income.
      b. Fixed rent.
      c. Less supervision by the landlord.

3. A landlord may not prefer a cash lease because:
   a. It generally provides lower income.
   b. It gives the landlord less control of the property.
4. A tenant may prefer a cash lease because:
   a. It will provide more profit if the business is successful.
   b. The tenant can expand the size of the business and lower fixed costs of the lease.

B. Share lease—A ***share lease*** is one in which the tenant and the landowner share in costs and revenue.
   1. Advantages of a share lease for the landlord are:
      a. More opportunity for supervision and management of the business.
      b. More probability the rent amount may come closer to the value of the land than other leases.
   2. Advantages of a share lease for the tenant are:
      a. Requires less capital than a cash lease.
      b. Landlord is more inclined to improve the property to increase productivity.
      c. Less risk exposure on cash outlays if product fails.

A variety of techniques may be used to assist students in mastering this objective. Students should use text materials to help identify the types and components of lease agreements. Chapter 11 in Farm and Ranch Business Management is recommended.

Review/Summary. Use the student learning objectives to summarize the lesson. Have students explain the content associated with each objective. Student responses can be used in determining which objectives need to be reviewed or taught from a different angle. Questions at the end of each chapter in the recommended textbooks may also be used in the review/summary.

Evaluation. Evaluation should focus on student achievement of the objectives for the lesson. Various techniques can be used, such as student performance on the application activity. A sample written test is attached.

Answers to Sample Test:

Part One: Matching

1. f
2. g
3. d
4. b
5. a
6. h
7. e

8. c

Part Two: Completion

1. Juristic person
2. Installment purchase agreement

Part Three: Short Answer

See Objective 4 in lesson.

Sample Test Name_____

Test

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Part One: Matching

Instructions. Match the term with the correct response. Write the letter of the term by the definition.

a. Deed	d. Capacity	g. Principal
b. Contract	e. Lease	h. Consideration
c. Mortgage	f. Title	

_____ 1. A document stating ownership of a property.

_____ 2. Amount of money borrowed.

_____ 3. The ability to fully understand and comprehend the requirements of a contract as specified by law.

_____ 4. A legally enforceable agreement negotiated between two or more persons.

_____ 5. A document which transfers ownership from one party to another.

_____ 6. Defined as value given and value received as a result of contractual agreement.

_____ 7. A contract by which an owner gives to a tenant the use of property.

_____ 8. A legal document giving the lender a claim against the property if the principal or amount borrowed, interest, or both are not paid as agreed.

Part Two: Completion

Instructions. Provide the word or words to complete the following statements.

1. A _____ _____is an entity, such as a corporation, created by law.
2. _____ _____ _____ is a purchase agreement made with all or part of the payment made at regular times over a specified period.

Part Three: Short Answer

Instructions. Provide information to answer the following question.

Compare and contrast the cash lease and the share lease.