

Lesson D2–4

Using Corporations and Cooperatives

Unit D. Basic Agribusiness Principles and Skills

Problem Area 2. Understanding Business Management and Structures

Lesson 4. Using Corporations and Cooperatives

New Mexico Content Standard:

Pathway Strand: Agribusiness Systems

Standard: I: Employ leadership skills to accomplish goals and objectives in an AFNR business environment.

Benchmark: I-B: Apply leadership skills to accomplish general business activities from production to public relations.

Performance Standard: 1. Identify leadership styles. 2. Conduct a business meeting using proper parliamentary procedures/consensus techniques. 3. Work in teams to access a variety of expertise. 4. Extend a pat on the back for jobs well done.

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

1. Understand the function of a corporation.
2. Identify the advantages of a corporation.
3. Identify the disadvantages of a corporation.
4. Understand the function of a cooperative.
5. Identify the advantages of a cooperative.
6. Identify the disadvantages of a cooperative.

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:

Herbst, J. H. *Common Ways of Organizing a Business* VAS 6014. University of Illinois Urbana-Champaign. 1974.

Newman, Michael E. and Walter J. Willis. *Agribusiness Management and Entrepreneurship*. Danville, IL: Interstate Publishers, Inc. 1994. (Chapter 1)

List of Equipment, Tools, Supplies, and Facilities

Writing surface
Overhead projector
Transparencies from attached masters
Copies of student lab sheet

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

Cooperative
Corporation
Dividends
Patronage payments
S corporation
Shareholders

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.

Show the students a copy of an annual report of a local cooperative. Ask the students why such a document is printed. Ask the students to determine the objective of the cooperative.

Summary of Content and Teaching Strategies

Objective I: Understand the function of a corporation.

Anticipated Problem: A *corporation* is a business that is treated as a single entity, yet owned by several people.

- I. There are several characteristics of a corporation.
 - A. The corporation is treated as a single entity; it can own property.

- B. The corporation is owned by *shareholders*.
- C. Capital is raised by selling shares of stock.
- D. The corporation is separate from the operator.
- E. Different classes of stock may be sold.
- F. The corporation is taxed as a legal entity.
- G. The corporation pays *dividends* to the shareholders to distribute profits.
- H. A sub-chapter **S corporation** is a special type of corporation.
 - 1. Stock is limited to one class.
 - 2. No more than fifteen shareholders are allowed.
 - 3. It is taxed as a partnership.

Assign Agribusiness Management and Entrepreneurship, Chapter 1 for students to read. Use TM: D2–4A to discuss the characteristics of a corporation. Invite the manager of a local corporation to speak to the class about considerations for beginning and operating a corporation.

Objective 2: Identify the advantages of a corporation.

Anticipated Problem: What are the advantages of a corporation?

- II. Agricultural corporations have numerous advantages.
 - A. Raising capital is easier than in partnerships and sole proprietorships.
 - B. There is a separation between ownership and management.
 - C. The business continues smoothly, regardless of illness or death.
 - D. Ownership is easily transferred.
 - E. Liability of owners is limited to the stock purchased.
 - F. Corporations provide a good way to pool resources of numerous individuals.

Use Agribusiness Management and Entrepreneurship, Chapter 1 as a reference for this objective. Use TM: D2–4B to discuss the advantages of a corporation.

Objective 3: Identify the disadvantages of a corporation.

Anticipated Problem: What are the disadvantages of a corporation?

- III. A corporation may pose several disadvantages.
 - A. Organizing a corporation can be complicated and costly.
 - B. They usually have additional bookkeeping and accounting costs.
 - C. Freedom of actions and changes to the business is limited.
 - D. It is expensive to end the business.
 - E. There are considerable legal aspects to consider.

- F. Double taxation may occur; the corporation's income is taxed as is the dividend paid to stockholders is also taxed.
- G. May be less of a personal business.

Use Agribusiness Management and Entrepreneurship, Chapter 1 as a reference for this objective. Use TM: D2–4C to discuss the disadvantages of a corporation.

Objective 4: Understand the function of a cooperative.

Anticipated Problem: How does a cooperative work?

- IV. A **cooperative** is a business organization where the owners are the customers.
 - A. Cooperatives emphasize member control.
 - B. Members with a mutual interest organize cooperatives.
 - C. Cooperatives are operated on a non-profit basis.
 - D. **Patronage payments** are the profits paid to members based on their use of the cooperative.
 - E. Membership is voluntary.
 - F. Most cooperatives operate on one-member, one-vote basis.
 - G. Its members elect the board of directors. The board is composed of cooperative members.
 - H. Cooperative stock does not increase or decrease in value.

Use Agribusiness Management and Entrepreneurship, Chapter 1 as a reference for this objective. Use TM: D2–4D to discuss characteristics of a cooperative.

Objective 5: Identify the advantages of a cooperative.

Anticipated Problem: What are the advantages of a cooperative?

- V. A cooperative offers numerous advantages to its members.
 - A. The cooperative's philosophy centers on member services.
 - B. Liability is limited to the amount of the investment.
 - C. Numerous people pool resources to start the cooperative.
 - D. All members share control of the business; no one or two people can control the company.
 - E. Long life of the cooperative is likely.

Use Agribusiness Management and Entrepreneurship, Chapter 1 as a reference for this objective. Use TM: D2–4E to discuss the advantages of a cooperative.

Objective 6: Identify the disadvantages of a cooperative.

Anticipated Problem: What are the disadvantages of a cooperative?

- VI. Few disadvantages of a cooperative are apparent.
 - A. Legal formalities can be numerous.
 - B. A large share of ownership is impossible.
 - C. Management of the business is limited to the general manager.

Use *Agribusiness Management and Entrepreneurship, Chapter 1* as a reference for this objective. Use TM: D2–4E to discuss the disadvantages of a cooperative.

Review/Summary. Focus the review and summary of the lesson around the student learning objectives. Call on students to explain the content associated with each objective.

Application. Application can involve one or more of the following student activities using attached lab sheets:

LS: D2–4A – Organizing a Cooperative

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 activities. A sample written test is attached.

Answers to Sample Test:

Part One: Matching

1 = b, 2 = f, 3 = e, 4 = a, 5 = d, 6 = c

Part Two: Completion

- 1 = property
- 2 = capital
- 3 = partnership
- 4 = investment
- 5 = non-profit
- 6 = board of directors

Part Three: Short Answer

1. Use Objectives 2 and 3 to score this question.
2. Agriculturists may use a cooperative as a purchasing organization, marketing organization, or a processing organization. Specific examples are acceptable.

Test

Lesson D2–4: Using Corporations and Cooperatives

Part One: Matching

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

- | | |
|-----------------------|------------------|
| a. cooperative | d. corporation |
| b. shareholders | e. S corporation |
| c. patronage payments | f. dividends |

- _____ 1. Owners of a corporation.
- _____ 2. Distribution of profits to owners of a corporation.
- _____ 3. No more than 15 shareholders are allowed.
- _____ 4. Owners are generally also customers.
- _____ 5. Business treated as a single entity.
- _____ 6. Paid to members based on their use of the business.

Part Two: Completion

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

1. Since a corporation is treated as a single entity it may own _____.
2. _____ is raised by selling stock.
3. An S corporation is taxed as a _____.
4. In a corporation, an owner's liability is limited to his/her _____.
5. Cooperatives are operated on a _____ basis.
6. A _____ is elected to determine policy of a cooperative.

Part Three: Short Answer

Instructions. Provide information to answer the following questions.

1. Explain the advantages and disadvantages of a corporation.
2. How might a group of agriculturists utilize a cooperative?

Characteristics of a Corporation

- **Treated as a single entity; it can own property.**
- **Owned by shareholders.**
- **Capital is raised by selling shares of stock.**
- **Different classes of stock may be sold.**
- **Taxed as a legal entity.**
- **Dividends paid to shareholders to distribute profits.**
- **A sub-chapter *S corporation* is a special type of corporation, where no more than 15 shareholders are allowed.**

Advantages of a Corporation

- **Raising capital is fairly easy.**
- **Separation between ownership and management.**
- **Business continues smoothly, regardless of illness or death.**
- **Ownership is easily transferred.**
- **Liability of owners is limited.**
- **Good way to pool resources of numerous individuals.**

Disadvantages of a Corporation

- **Organizing can be complicated and costly.**
- **Additional bookkeeping and accounting costs.**
- **Freedom of actions and changes to the business is limited.**
- **Expensive to end the business.**
- **Considerable legal aspects to consider.**
- **Double taxation may occur**
- **May be less of a personal business.**

Characteristics of a Cooperative

- **Emphasize member control.**
- **Members with a mutual interest organize cooperatives.**
- **Operated on a non-profit basis.**
- **Patronage payments are paid to members.**
- **Membership is voluntary.**
- **Most operate on one-member, one-vote basis.**
- **Members elect the board of directors.**
- **Cooperative stock does not increase or decrease in value.**

Advantages of a Cooperative

- **Cooperative’s philosophy centers on member services.**
- **Liability is limited.**
- **Pool resources to start the business.**
- **All members share control of the business.**
- **Long life of the cooperative is likely.**

Disadvantages of a Cooperative

- **Legal formalities can be numerous.**
- **A large share of ownership is impossible.**
- **Management of the business is limited.**

Lab Sheet

Organizing a Cooperative

Purpose:

1. To plan and organize a cooperative.

Procedure:

Your teacher will assign you into small groups. In your group, prepare a business plan and constitution for the formation of an agricultural cooperative.