

ApEc 3811 -- Spring 2009
Review points for exam 1

Chapter 1 The Scope of Farm Management

Suggested review questions: 4, 5, 6, 8, 9

Key points

- Farm management is allocation, direction, and control of limited resources to achieve the goals of the farm and farm family.
- Farmers are general managers not just production managers and responsible for many activities on a farm.
- People have many goals and multiple goals mean tradeoffs may need to be made between goals.
- The four major functions of management are planning, organizing, directing, and controlling. These management functions are not the same as the business functions of production, marketing, financing, personnel management, and so on.
- Planning is the determination of the intended strategy and course of action.
- Organizing is the acquisition and organization of the necessary land, labor, machinery, livestock, capital, and management resources.
- Directing is the coordination of those resources to produce the chosen products.
- Controlling consists comparing actual results to expected results and taking corrective actions when needed.
- Making decisions is not a linear process but involves many loops, feedback, and iterative steps.
- The business life cycle has three stages: entry or establishment; growth and survival; and exit or disinvestment.
- Preparing a business plan provides a structured approach for planning and helps insure that important points are considered.

Key terms: planning, organizing, directing, controlling, decision making, business life cycle, business plan

Chapter 2 Strategic Management

Suggested review questions: 1, 3, 4, 6, 7, 8, 13, 16, 19, 22, 24

Key points

- Strategy is the pattern of actions used by a farmer to accomplish goals and objectives.
- Actual strategy is a mixture of planned action and relative quick reactions to changing circumstances.
- Strategic management consists of planning a strategy, implementing the chosen strategy, controlling the outcomes of the strategy implementation, and adjusting the chosen strategy over time as conditions change.

- The need for a disciplined strategic management process is as true for a one-person or one-family farm as it is for a multi-partner, multi-employee farm.
- Both strategic and financial objectives need to be specified.
- Porter's five forces describing competition are risk of entry by potential competitors, rivalry among established farms, bargaining power of buyers, bargaining power of suppliers, and substitute products.
- Key success factors (KSFs) are measures and performance standards that must be met to be competitive.
- Four building blocks of competitive advantage are efficiency, quality, innovation, and customer responsiveness.
- SWOT analysis will identify a farm's strengths, weaknesses, opportunities, and threats.
- Crafting strategy can start with adapting one or more generic strategies to a farm's specific conditions.
- Several tests are available for evaluating potential strategies.
- Strategic control is needed to monitor actual results in achieving goals and objectives and making corrective actions as needed.
- Strategic management is a continuous process because the world changes.

Key terms: strategy, strategic management, vision, mission, goals, objectives, external analysis, internal analysis, KSFs, competitive advantage, SWOT, scenarios, crafting strategy, strategic implementation, strategic control

Chapter 4 Budgeting

Suggested review questions: 1-7, 11

Key points

- A budget is a projection of income and expenses used for planning the future.
- An enterprise is a common name for a part of the farm business.
- Fixed costs are those that occur no matter what or how much is produced.
Variable costs are those costs that will vary with the volume of business.
- Direct costs are those costs that are associated directly with production of a specific product or activity. Overhead costs are those costs that are hard to assign directly to a particular enterprise.
- Cash income and expenses involve an actual transfer of cash. Non-cash income and expenses do not involve a cash transfer.
- The opportunity cost of a resource is the income that could be received from the best alternative use of that resource.
- Long-run decisions need long-run information. Short-run decisions need short-run information.
- The whole-farm budget provides a summary of the major physical and financial features of the entire farm business.
- An enterprise budget is a statement of expected receipts, costs, and net returns for a specific enterprise.
- A cash flow budget shows the ability of a business to generate sufficient cash inflows to cover cash outflows during a specified period.

- The partial budget is used for estimating the effects of changes in the business and includes only those items that are affected by the change.
- Enterprise budgets can be developed in two ways: from whole-farm records and by economic engineering.

Key terms: budget, enterprise, fixed cost, variable cost, direct cost, overhead cost, cash, non-cash, opportunity cost, whole-farm budget, enterprise budget, cash flow budget, partial budget, economic engineering

Chapter 5 Production and Operations Management

Suggested review questions: 1, 3, 4

Key points

- A process map is a description of a method or process of accomplishing a task.
- Gross margins can be used to select the best mix of enterprises for a farm.
- The gross margin equals gross income minus variable costs.

Key terms: process maps, gross margin

Chapter 6 Quality Management and Control

Suggested review questions: 1, 4, 8, 10, 16, 17

Key points

- Quality management involves a holistic view of the entire farm and aims to develop a philosophy of improving quality in all functions.
- Quality control refers to controlling already selected processes for the products already chosen and designed.
- Process control consists of the procedures to monitor production for compliance with the original plan and development of corrective actions designed to bring the process back into compliance.
- Process improvement includes a set of tools used to understand the current process better and to look for potential ways to improve both the process and the product.
- Quality is meeting or exceeding customer requirements.
- The customer, not the producer, defines quality.
- Product quality can be defined in four dimensions: quality of design, quality of conformance, the "abilities," and service after delivery.
- The costs of quality include control costs (prevention and appraisal) and failure costs (internal and external).
- Total quality management (TQM) is a management philosophy that strives to involve everyone in a continual effort to improve quality and achieve customer satisfaction.
- The ISO 9000 family of standards are concerned with assuring consistent application of a business' chosen production process.
- A process control system consists of three parts: standards, measurement, and corrective actions.

- Preliminary controls are anticipatory actions that take place before problems are detected.
- Concurrent control occurs during the production process as problems are detected.
- Feedback control evaluates production and makes recommended changes after production is finished.
- A fail-safe plan is a process and product design tool that looks for ways to eliminate the possibility of problems or mistakes occurring.
- Check sheets are forms that merely require a check to be made in the appropriate column or spot to show the frequency of certain events that relate to quality or process characteristics.
- A trend or run chart is a running plot of measured quality characteristics.
- Cause and effect (CE) diagrams show the factors that affect a desired result and are used to search for assignable causes of detected problems.
- Benchmarking is the process of measuring performance against the best.
- On-farm experiments and trials can be used to develop local data to help solve problems and improve processes.

Key terms: quality, quality management, quality control, product quality, process quality, costs of quality, quality gurus, Deming, continuous improvement, TQM, ISO 9000, HACCP, process control, preliminary, concurrent, feedback, fail-safe plans, check sheets, trend charts, cause-and-effect (CE) diagrams, benchmarking

Chapter 7 Financial Analysis

Suggested review questions: 1, 2, 3, 5, 6, 8 (estimate debt/asset ratio), 9, 10

Key points

- Financial position (or condition) refers to the total resources controlled by a business compared to the claims against those resources.
- Financial performance refers to the results of decisions over time.
- The three main financial statements are the income statement, balance sheet, and cash flow statement.
- The income statement shows the difference between the gross income and the costs incurred to produce that income.
- The balance sheet shows the assets and liabilities on a specific date.
- The cash flow statement shows the annual flow and timing of cash in and out.
- To assess financial position and performance adequately, profitability, solvency, liquidity, repayment capacity, and financial efficiency need to be assessed.
- Both absolute and relative measures are needed.
- Profitability can be measured by net farm income, rate of return on farm equity (ROE), and rate of return on farm assets (ROA).
- Solvency can be measured by net worth (or equity) and debt/asset ratio.
- Liquidity can be measured by working capital and current ratio.
- Repayment capacity is measured by the term debt and capital lease coverage ratio and the capital replacement and term debt repayment margin.
- Financial efficiency is measured by the asset turnover ratio, four operational ratios (the operating expense ratio, depreciation expense ratio, interest

expense ratio and net farm income from operations ratio), and cost measures appropriate to the farm.

- An initial analysis is performed to gain an understanding of the farm and to find areas that have problems or opportunities so that further analysis can better focus on those areas.
- Diagnostic analysis is used once a problem or symptom of a problem becomes evident.

Key terms: financial position, financial performance, financial statements, income statement, balance sheet, cash flow statement, absolute measure, relative measure, profitability, solvency, liquidity, repayment capacity, financial efficiency, NFI, ROA, ROE, NW, debt/asset ratio, working capital, current ratio, initial analysis, diagnostic analysis

Chapter 8 Financial Management (up to Cash Flow management on p. 238)

Suggested review questions: 1, 2, 3, 4

Key points

- Equity capital is the money of the owners, partners, and other investors.
- Debt capital is a liability or other financial obligation on which interest and other fees have to be paid.
- Principal and interest payments are calculated by multiplying the loan principal by an amortization factor. The amortization factor is based on the loan's interest rate, payments per year, and the number of years of the loan.
- Since different loans can have different interest rates, fees, and other terms, the effective actual percentage rate (APR) can be calculated and used to compare the cost of alternative sources of credit.

Key terms: equity capital, debt capital, principal & interest (P&I) payments, amortization, amortization factor, APR