COURSE GUIDE

ARD 509
AGRICULTURAL BUSINESS MANAGEMENT AND FINANCE

Course Team

Dr. Abu Maji (Course writer) - Kogi State University, Anyigba.
Prof. N. E. Mundi & Dr. A. I. N. Kaine (Course Editors)- NOUN
Dr. Aliyu Musa Course Editor - (NOUN)
Prof. N. E. Mundi Programme Leader - NOUN

NATIONAL OPEN UNIVERSITY OF NIGERIA

© 2018 by NOUN Press
National Open University of Nigeria
Headquarters
University Village
Plot 91, Cadastral Zone
Nnamdi Azikiwe Expressway
Jabi, Abuja

Lagos Office
14/16 Ahmadu Bello Way
Victoria Island, Lagos

e-mail: centralinfo@nou.edu.ng
URL: www.nou.edu.ng

All rights reserved. No part of this book may be reproduced, in any
form or by any means, without permission in writing from the publisher.

Printed 2018

ISBN: 978-978-8521-41-9

CONTENTS **PAGES**

INTRODUCTION

Agriculture can be defined as the cultivation and/or production of crop plants or livestock products. It consists of rearing of animals, the growing of crops, development of forest resources and fishing. There are many branches of agriculture, namely- agricultural economics, crop science, soil science, fishery, forestry and agricultural engineering.

Agricultural economics is an applied field of economics in which economic principles are applied in the use of scarce resources such as land, labour capital and management in farming and allied activities. It is indeed the science in which the principles and methods of economics are applied to the special conditions of agricultural industry. One of the branches of agricultural economics is “Agricultural Business Management and Finance”.

Agricultural Business is the sum total of all the operations involved in the manufacture and distribution of farm supply, production operation of the farm and the storage, processing and distribution of farm commodities and items made from them. Agricultural finance on the other hand means studying, examining and analysing the financial aspects pertaining to farm business.

This course is designed to provide essential skills needed in agricultural business management and finance.

WHAT YOU WILL LEARN IN THIS COURSE

ARD 509- Agricultural Business Management and Finance is a three credit units course. It is one of the courses on offer in one of the departments in the Faculty of Agricultural Sciences.

The course is presented in six modules. Module one is on Agricultural Business Management. This covers meaning and importance of Agricultural Business, Components and various sectors of Agricultural Management and Management decisions.

Module two focuses on the types of Agricultural Business Management and Organisation. They include Sole-proprietorship, Partnership, Cooperatives and Corporate Business.

Module three discussed Production and Planning. The meaning and types of production and planning were explained. Factors to be considered in production planning, advantages and guiding principles were discussed.

Module four discussed the Economics of Agricultural Processing and marketing Management. Concept and Contribution of Agro-processing were explained. We also explained Marketing and Marketing management, functions and problems of Agricultural marketing.

Module five discussed Agricultural Finance and Farm Credit. It covered meaning and problems of Agricultural finance, concept, classification and characteristics of Agricultural credit. Sources, criteria, and requisites for Agricultural credit were also discussed. Collateral security for loans was highlighted.

The last module (six) covered Farm records, accounting and inventory, we explained how to, properly, record financial transactions on the farm and calculate profit in order to give an assessment of the progress of the farm.

Farm inventory which forms the basis for the preparation of income statement, balance sheet, measures of income etc. was also discussed in this module.

COURSE AIMS

The aim of this course is to explain how to effectively and efficiently manage Agricultural business and finance in order to achieve the desired objectives.

COURSE OBJECTIVES

At the end of this course, you should be able to:

- define Agricultural business, finance, credit, marketing, planning, farm records and accounts.
- explain the components and various sectors of Agricultural management and management decisions.
- identify the types of Agricultural business management and organisations and list their characteristics, advantages and disadvantages.
- define production and planning
- list and explain the types of production and planning, advantages and guiding principles of production planning.
- explain the economics of Agricultural processing and marketing
- define marketing management and explain functions and problems of agricultural management
- define Agricultural finance and farm credit
- explain the problems of Agricultural finance
- list the criteria and sources of agricultural credit.
- determine the importance of keeping farm records and accounts.

- prepare balance sheet and profit and loss accounts for any given farm enterprises
- calculate and explain the implications of the common financial ratios to agricultural business management.

WORKING THROUGH THE COURSE

ARD 509-Agricultural Business Management and Finance is a three (3) Credit units course; so, it is expected that the lecture hours will be twelve (12). In addition to twelve hours of lectures with the course facilitator, tutorial classes will also be organised for students to discuss the technical areas of this course. During the first reading, you are expected to spend a maximum of two hours on each unit of this course-book. During the period of two hours, you are expected to read through the unit and also answer the self-assessment exercises and questions. Apart from tutorial classes, it is advisable that you form discussion group with your classmates to discuss some of the questions especially those that involve calculations. To this end, discussion group of between three to five people will be adequate.

COURSE MATERIALS

The main components of the course are as outlined below:

- Course guide
- Study units
- Textbooks and references
- Assignments
- Presentation schedule

STUDY UNITS

The following are the study units arranged in modules as contained in this course.

Module I	The Scope of Agricultural Business and Management
Unit 1	Meaning and Scope of Agricultural Business
Unit 2	Management Decisions in Agricultural Business and Management
Module 2	Types of Agricultural Business Management and Organisations
Unit 1	Sole Proprietorship
Unit 2	Partnership

Unit 3	Corporate or Limited Liability Company
Unit 4	Cooperative Societies
Module 3	Production Planning
Unit 1	Meaning of Production and Planning
Unit 2	Why Planning is Necessary, Characteristics of Good Production Plan and Factors to be Considered in Production Planning
Unit 3	Advantages of Production Planning, Uses of Planning and Guiding Principles of Planning
Module 4	Economics of Agricultural Processing and Marketing Management
Unit 1	The Concept of Processing, Contribution of Agro Processing and Constraints Relating to Agro-Processing
Unit 2	Meaning of Marketing and Marketing Management: Concept of Agricultural Marketing and Pre-requisites for Efficient Agricultural Marketing
Unit 3	Functions of Agricultural Marketing and Agricultural Marketing Manager
Unit 4	problems of Agricultural Marketing and Solution to the Problems
Module 5	Agricultural Finance and Farm Credit
Unit 1	Meaning and features of Agricultural Finance
Unit 2	Problems of Agricultural Finance and Suggestions to Improve Agricultural Finance
Unit 3	Meaning, Characteristics and Classification of Agricultural Finance
Unit 4	Sources of Agricultural Credit, Criteria and Requisites for Agricultural Credit, Collateral Security for Loans
Module 6	Farm Records, Accounting and Inventory
Unit 1	Concept of Farm Records and Accounting
Unit 2	Farm Record Designs
Unit 3	Benefit Cost Analysis of Agricultural Projects
Unit 4	Farm Inventory
Unit 5	Financial Statements

TEXTBOOKS AND REFERENCES

At the end of each unit, there is a list of recommended textbooks which though are not compulsory for you to acquire or read, but are necessary as supplement to the course materials. The textbooks and materials are meant to deepen your understanding of the course.

Meanwhile, you are advised to consult more recent editions of the following recommended textbooks.

Abbot, J.C. & Makeham, J.P. (1980). Agricultural Economics and Marketing in the Tropics. London : Longman.

Adegeye, A.J. & J.S. Dittoh. (1985). Essentials of Agricultural Economics. Ibadan: Impact Publishers Nig. Ltd.

Arene, C.J. (2003). Introduction to Agricultural Marketing Analysis and Policy. Enugu, Nigeria: Fulladu Publishing Company.

Castle, N.E. & Becker, H.M. (1987). *Farm Business Management.* New York: Macmillan.

Ihimodu, I.I. (2012). Perspectives on Agriculture and Rural Development in Nigeria. Ilorin, Nigeria. Yori Consulting and Development Services Ltd.

Marshall, Odii, A.C.A. (1978). Modern Farm Management Techniques. Owerri, Nigeria: Alphabet Nigeria Publishers.

Nwokoye, N.G. & A.I. Ahianzu. (1988). Introduction to Business Management. Nigeria: Macmillan.

Oyedijo, O.A. (1995). Principles of Management. Ibadan. Paramount Books Ltd.

Panda, S.C. (2011). Farm Management and Agricultural Marketing. India, New Delhi: Kalyani Publisher.

Subba, R.S. & P. Raghu, Ram. (1991). Agricultural Finance and Management. NewDelhi: Oxford and IB Publishing.

Subba, Reddy.S., Ram, .P., Sastry, T.V. & Bhavani, Devi. I. (2009). Agricultural Economics. New Delhi, India: Prt. Ltd.

Upton, M. (1993). Farm Management in Africa. London: Oxford University Press.

Upton, M. & Anthonio, Q.B.O. (1981). *Farming as a Business.* London: Oxford University Press.

ASSESSMENT

There are two components of assessment for this course:

i. Tutor-Marked Assignment (TMA)
ii. End of course examination

TUTOR-MARKED ASSIGNMENT

The Tutor-Marked Assignment is the continuous assessment component of this course. It accounts for 30 percent of the total score. You will be given four Tutor-Marked Assignments to answer. At least three of them must be answered before you are allowed to sit for the end of course examination. The TMAs would be given to you by your facilitator and returned to him or her after you have done the assignments.

FINAL EXAMINATION AND GRADING

This examination concludes the assessment for the course. It contributes 70 percent of the whole course. You will be duly informed of the time and date for the examination through your study centre.

SUMMARY

ARD 509-Agricultural Business Management and Finance is designed to provide background information and practical experiences on how to effectively and efficiently manage agricultural business and finance/credit. By the time you complete studying this course, you will be able to answer the following questions.

- What is Agricultural Business?
- What is Agricultural Finance?
- Discuss the Components of Agricultural Business
- Define Management and Explain categories of Management Decision
- Give the meaning and characteristics of the following forms of business organisations (i) Sole Proprietorship, (ii) Partnership (iii) Corporate or Limited Liability Company (iv) Cooperative Societies
- List and explain the advantages and disadvantages of the following forms of business organisations (i) Sole Proprietorship (ii) Partnership (iii) Corporate or Limited Liability company (iv) Cooperative societies
- What is Production and what are the types of Production and Planning
- What are the advantages of Production Planning and the guiding principles of Planning?
- Define Agro-Processing and explain the contribution of Agro – Processing.
- Define and explain the functions of Marketing Management.

- Outline and explain the problems of Agricultural Marketing.
- Explain the features and problems of Agricultural Finance
- What is Agricultural Credit and list the criteria for Agricultural Credit.
- Explain the terms Farm Records and Accounts
- Design Farm Records and Accounts for:

(a) a named Crop

(b) a named Livestock.

- What is a Balance Sheet?
- With relevant examples, distinguish between assets and liabilities.

MAIN COURSE

CONTENTS **PAGE**

MODULE 1 The Scope of Agricultural Business and Management

Unit 1 Meaning and Scope of Agricultural Business
Unit 2 Management Decisions in Agricultural Business and Management

UNIT 1 MEANING AND SCOPE OF AGRICULTURAL BUSINESS

CONTENTS

1.0 INTRODUCTION

Agriculture can be referred to as the art and science of cultivating crops, raising livestock, providing raw materials for agro-based industries and marketing of agricultural produce for man's use. There are many branches of agriculture and these are: Agricultural Economics, Soil Sciences, Fishery, Forestry and Agricultural Engineering.

Agricultural Economics is the science in which the principles and methods of economics are applied to the special conditions of agricultural industry. One of the main branches of Agricultural Economics is Agricultural Business Management and finance. This unit examines the meaning and scope of agricultural Business.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- define Agricultural Business
- explain the importance of Agricultural Business
- outline and explain the components of Agricultural Business
- list and explain the various sectors of Agricultural Business.

3.0 MAIN CONTENT

3.1 Meaning of Agricultural Business

This is the sum total of all the operations involved in the manufacture and distribution of farm supply (input), production operation of the farm and the storage, processing and distribution of farm commodities and items made from them. It is a coordinating science of supplying agricultural product, inputs and subsequent production. Furthermore, it describe all economic activities that involve the distribution and transformation of the raw materials that are from agricultural sector and non agricultural sectors whose final product are used for agricultural purposes and agro allied enterprises

3.2 Importance of Agricultural Business

i. Agricultural Business serves to move food and fibre to consumers to eliminate scarcity of food. Food and fibre may be in abundance somewhere but if they are not moved to where they are not produced, it is the same as no food. Faculty distribution systems are as much as the cause of hunger and starvation as is inadequate food and fibre production.

ii. Farm inputs are basic to efficient agricultural production. Availability of inputs such as fertilizer, feeds and insecticides are important catalyst for agricultural production. Storage and processing component of agricultural business ensure availability of food and fibre all year round, ensure food varieties and increase the lifespan of food and fibre.

iii. Agricultural business development facilitates the release of workers on farming for employment in other occupation due to increased efficiency in production and marketing of food and fibre.

3.3 Components of Agricultural Business

The components of agricultural business are the separate units for carrying out agricultural business activities.

They are farm supply components, farm production component, processing component, and marketing and distribution component.

1) **Farm Supply Component:** Farm production depends heavily on certain traditional inputs such as land, labour, capital, water and management. The capital input comes in two forms. They are physical capital and biological capital.
   Physical capitals are in form of machineries and power which are capable of substituting for labour. The biological capitals on the other hand are in form of improved seeds, fertilizer, pesticides which are essential in improving yield.

   In addition, there are packaging supply such as bags, sacks, carton and creeks which are needed for bagging agricultural products. Other aspects of supply include building materials, water, electricity, credit or finance and farm insurance. Availability of farm supply in cheap and continuous form facilitates structural transformation of farm production from small scale state and to a more modern and commercialised form.

2) **Production Component of Agricultural Business:** This involves actual production of farm products. The major activities are the production of crops, feeds, livestock, fish, forest product and wild life. Farm production is moving towards cooperate, cooperative and state farm with increase efficiency in production. The growth in farm efficiency is brought about by large acquisition of large farm land and water resources, investment in education which include human skill and managerial activities, development and diffusion of new knowledge about agricultural technology and complementary industrial development that supply input needed for agricultural production among others.

   The growth and development of farm production will usher in useful agricultural framework as a result of the following impact. Reduction in the number of farmers and decrease in the total area of hectares of land under cultivation i.e. a few people should be in farming and produce more food and fibre as a result of the use of modern tools and equipment. The yield per hectare should be increased as well and livestock should do better under improved conditions. Finally, farmers should be better in terms of having more assets, using more credit, enjoying better living standard, raising farm family, growing and using more machine and hired labour.

3) **Processing Component of Agricultural Business:** Processing is one of the important components of agricultural business since it is capable of changing the form of farm production process. In developing countries, processing involves the preparations of rice milling, yam flow and cassava flow preparation so as to provide the basic food for the people. Processing adds value to the products and increases the shelf life of the products. As the level of income rises there is a need to shift towards move elaborate processing which can lead to more refined and expensive food processing of farm. Processing of farm products play very important role in the economy of developing countries where it serves as the beginnings of industrialization. It also helps in foreign exchange earning because when a product that was formally exported in raw form is processed before export or when exported commodity is produced locally, a country can obtain for itself the value approved elsewhere.

4) **Marketing Components:** This is otherwise called products distribution component and undertakers three major functions which are:
   (a) Concentration which involves buying, assembling, warehousing and packaging.

(b) Equalisation which involves grading, sorting, repackaging, standardisation, regulating and inspecting to ensure quality compliance.

(c) Dispersion function which involves merchandising retailing wholesaling and market intelligence.

3.4 Sector of Agricultural Business

Agricultural business can be perceived in three independent sectors.

i. Input Sector: This serves as building unit that is required to service a transformation process in order to achieve one or more product. As input prices increase and farm income is relatively stable, producers will reduce the utilization of the more expensive input and substitute other resources input for them.

ii. Farm Production Sector: This covers area like aquaculture, forestry, crop and livestock production. The success of this sector has vital direct impact on the financial stand of the input supplied because as the sector grows in size, the level of output and efficiency and increase in the scale of production leads to more of the output being made available to the product sector for onward processing and distribution.

iii. Output Sector: This sector is otherwise known as product sector is the final sector in agric-business. It is the largest sector in agricultural business as its function ranges from products process to marketing and distribution of the product to the various consumers either as raw materials for further production or final consumption.

SELF-ASSESSMENT EXERCISE

i. Differentiate between agriculture, agricultural economics and agricultural business

ii. Explain the following terms:
   i. Agricultural products
   ii. Agricultural input
   iii. Agro-allied enterprises
   iv. Business

iii. Explain the various sectors of agricultural business

4.0 CONCLUSION

In this unit, we have discussed the meaning and scope of agricultural business. It covers the components and sectors of agricultural business. From the discussions, it can be concluded that the main issues in agricultural business are production and distribution of agricultural product to the various consumers and supply of farm inputs.

5.0 SUMMARY

In this unit, you have learnt that agricultural business is an important branch of Agricultural-economics. It is a science of supplying agricultural product, inputs and subsequent product. Agricultural business is perceived in three sectors- viz input, farm production and output sectors.

6.0 TUTOR-MARKED ASSIGNMENT

1. (a) What is agricultural business?
   (b) Discuss the importance of agricultural business.
2. Describe the various components of agricultural business.

7.0 REFERENCES/ FURTHER READING

Adegeye, A.J. & Dittoh, J.S. (1985). *Essentials of Agricultural Economics*. Ibadan: Impact Publishers Nig. Ltd.

Ayinde, A.T., Abdul-Azeez .A. & Adebayo, R.O. (1999). *Agricultural Economics and Statistics*. Ado-Ekiti: Adebayo Publishing Nigeria Ltd.

Panda, S.C. (2011). *Farm Management and Agricultural Marketing*. India, New Delhi: Kalyani Publisher.

Upton, M. (1993). *Farm Management in Africa*. London: Oxford University Press.

UNIT 2 MANAGEMENT DECISIONS IN AGRICULTURAL BUSINESS AND MANAGEMENT

CONTENTS

1.0 INTRODUCTION

In unit one, we explained the meaning of agricultural business, discussed the components and sectors of agricultural business. The various sectors of agricultural business are in input, farm production and output. This unit is devoted to the study of management and management decisions.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- define management
- explain the vital functions of management
- highlight the main decision of agriculture business
- explain the various categories of management decisions.

3.0 MAIN CONTENT

3.1 Definition of Management

Management is the control and organising of a business or other entity. When applied to farm business, management could be seen as a practical undertaking of the farm business with respect to how to put the crop and livestock husbandry to work on the farm as a means of obtaining high profit. It therefore involves the process of determining how the business or farm unit is organised or operated.

3.2 Vital Functions of Management

Generally, management performs three unique functions;

i. **It makes Decision:** This means to decide upon each course of action, to choose wisely among alternatives where they exist.
ii. **It acts on Decisions:** The next step to take after making decisions is to act and work. In farm management, the manager selects the production

level producing and marketing the farm products. He must therefore find and assemble all resources.

iii. **It takes Financial Responsibility:** This entails assembling, using and maintaining the agricultural resources.

3.3 Main Decisions of Agricultural Business

i. **What to Produce:** It decides which products to produce and shows the product relationship

ii. **How to Produce:** This relates to choosing the most effective method of producing a given quantity of a particular product.

iii. **How Much to Produce:** This relates to the problems in converting the several farm resources into the final farm product.

iv. **Time Relationship:** It shows the relationship between the time that farmer makes investment of capital and that later date when this investment returns the physical production.

3.4 Classification of Management Decisions

Management decisions are generally classified into organisational management decisions, administrative management decisions and marketing management decisions. They are therefore discussed as follows:

1) **Organisational Management Decision:** These are further sub divided into operational management decisions and strategic management decisions.

   i. **Operational Management Decisions:** These involve less investment and are made move frequently. The effect of these decisions is short lived. These decisions can be reversed without incurring a cost or with less cost. These decisions are what, how and how much to produce.

   ii. **Strategic Management Decisions:** These involve heavy investment and are made less frequently. The effect of these decisions is long lasting. The decisions cannot be easily altered. However, in case of reversal of these decisions the farmer has to incur high cost. These decisions are also known as basic decisions. Some of the examples of strategic management decisions are size of the farm, machinery and labour programme, construction of farm buildings, irrigation, conservation and reclamation programmes.

2) **Administrative Management Decisions:** The farmer makes several administrative decisions like financing the farm business, supervision, accounting and adjusting the farm business according to government policies.

3) **Marketing Management Decision:** Marketing management decisions include buying and selling. Every farmer makes an attempt to purchase necessary inputs at the least cost source. In buying resources, a farmer has to decide the agency, the timing and the quantity to be purchased. In case of selling, farmers can obtain better prices by adjusting the timing of sales. What to sell, where to sell, whom to sell, when to sell and how to sell are important selling decisions that are to be made by the farmer.

4.0 CONCLUSION

In this unit, we have discussed the meaning, functions and types of management decisions. Management entails the control and organising of a business or other organisations. Management decisions are therefore classified into organisational management, administrative management and marketing management.

5.0 SUMMARY

In this unit you have learnt that:

- management is an aspect of Agricultural Economics
- management makes decisions, acts on decisions and takes financial responsibility.
- the main decisions of Agriculture Business are what to produce, how to produce, how much to produce and time relationship.
- management decisions focus on organisation, administration and marketing.

6.0 TUTOR-MARKED ASSIGNMENT

1) Explain the concept of Management
2) What are the unique functions of Management?
3) Describe the various categories of Management decisions.

7.0 REFERENCES/FURTHER

Nwokoye, N.G. & Ahianzu, A.I. (1988). *Introduction to Business Management*. Nigeria : Macmillan.

Oyedijo, O.A. (1995). *Principles of Management*. Ibadan: Paramount Books Ltd.

Panda, S.C. (2011). *Farm Management and Agricultural Marketing*. New Delhi, India: Kalyami Publishers.

Subba Reddy .S., Ram, .P, Sastry, T.V. & Bhavani, Devi. I. (2009). *Agricultural Economics*. New Delhi, India: Prt. Ltd.

MODULE 2 TYPES OF AGRICULTURAL BUSINESS MANAGEMENT AND ORGANISATIONS

UNIT 1 SOLE PROPRIETORSHIP

CONTENTS

1.0 INTRODUCTION

In Module one, we examined the scope of agricultural business and management. In Unit 1, we explained the meaning and scope of agricultural business, components of agricultural business and sectors of agricultural business. In Unit 2, we defined management, explained the functions of management, main decisions of agricultural business and discussed the classification of management decisions. This module is devoted for discussing types of agricultural business management and organisations. The module is divided into four units which include, Sole Proprietorship, Partnership, Corporate or Limited Liability Company and Cooperative Societies. This unit examines the meaning of Sole Proprietorship, advantages and disadvantages of Sole Proprietorship.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- define Sole Proprietorship
- explain the advantages of Sole Proprietorship
- highlight the disadvantages of Sole Proprietorship.

3.0 MAIN CONTENT

3.1 Meaning of Sole Proprietorship

It is a form of business organisation where one person combines productive factors for the immediate purpose of making revenue or profit (Ajayi: 1981). This is an enterprise or a firm owned, financed and controlled by one person whose aim is to make a profit.

3.2 Advantages of Sole Proprietorship or One-Man Business

i. It is a simple and highly flexible type of business organisation. It has limited capital or the type of finance required is usually small.

ii. Effective Operation is enhanced in this type of business organisation because the owner can supervise the workers or employees who are not too many and are personally known by the owner.

iii. Decisions can be quickly made by the owner of the business since he is the owner of the business and does not have to consult any other person before he can act. In view of this, he enjoys independence of action and freedom of speech and action for his business.

iv. The one-man business or sole proprietorship pays lower taxes. He pays income tax which is generally lower than those paid by other forms of business organisation.

v. Privacy is enjoyed in this type of business organisation. The owner can keep his business moves very private since he enjoys privacy.

vi. There is a close personal contact between the owner of the business organisation, his employers and customers. This enhances better friendly relationships and the smooth running of the business. Misunderstandings with regard to wage rates and condition of service are not common in one-man business.

3.3 Disadvantages of Sole Proprietorship

i. **Limited Capital-** the financial resources of one-man business is limited generally, hence it is difficult to expand his business.

ii. The one-man business has unlimited liability. This means that if he makes a wrong calculation, he must take responsibility for all the losses. If things go badly, he is likely to lose all his personal possessions.

iii. He works for longer hours and in most cases has little or no time for vacation

iv. If the owner of the business dies, the business concern may fold up. The business is legally terminated as soon as the owner dies since a new proprietor of the business may not have the same qualities as the original or first sole proprietor.

v. There is an element of uncertainly about the sole proprietor. This is due to the fact that his state of health and family problems are likely to affect the business.
vi. The sole proprietorship type of business does not enjoy the advantages associated with large scale production.
vii. As regards risk bearing, either big or small is borne by a single person that owns the business organisation.

4.0 CONCLUSION

In this unit, we have defined or explained the meaning of Sole Proprietorship. We have discussed the advantages and disadvantages of sole proprietorship. Business enterprises can be established by private individuals in order to produce, sell and distribute goods and services with a view to making revenue or profit. The sole proprietorship is a popular business concern in Nigeria and is mostly confined to agriculture and retailing business. In all ramifications, it has some obvious advantages and disadvantages.

5.0 SUMMARY

- In this unit, you have learnt that sole proprietorship is the simplest form of business organisation owned, financed and controlled by one person with a view to making profit.
- This form of business organisation has no legal restraints, therefore it is easy to set up.
- This form of business organisation is retail trade such as farming.
- The sole proprietor ears the risks and reaps the profit all alone.
- The decision making function rests on the owner and in most cases makes decisions that lead to the progress of the business.

6.0 TUTOR-MARKED ASSIGNMENT

1) Explain the following:
   a. Sole Proprietorship
   b. Limited and Unlimited Liability
2) Discuss the advantages and disadvantages of Individual Proprietor or One-man Business.

7.0 REFERENCES/FURTHER READING

Ibi Ajayi, S. (1981). *Economics Textbook for West Africa*. Ibadan, Nigeria: Onibonoje Publishers.

Ihimodu, I.I. (2012) *Perspective on Agriculture and Rural Development in Nigeria*. Ilorin: Yori Consulting and Development Services Ltd.

Nwokoye, N.G. & Ahianzu, A.I. (1988). *Introduction to Business Management*. Nigeria: Macmillan.

Stephen, N.M. & Osagie, E. (1985). *A Textbook of Economics for West African Students*. Ibadan, Nigeria: University Press Limited.

UNIT 2 THE PARTNERSHIP

CONTENTS

1.0 INTRODUCTION

In unit 1 of this module, we discussed Sole Proprietorship. The issues discussed include- Meaning of Sole Proprietorship, Advantages and disadvantages of Sole Proprietorship. This unit is devoted to discussing partnership form of business ownership. The issues covered include- Meaning of Partnership, types of Partnership, Advantages and disadvantages of Partnership.

2.0 OBJECTIVES

By the end of this unit, you should be able to:

- explain or define Partnership
- list and explain the types of Partnership
- explain the advantages of Partnership
- explain the disadvantages of Partnership.

3.0 MAIN CONTENT

3.1 Meaning of Partnership

This is a form of business organisation where two or more people sign a contract to own and run a business (Ajayi & Ojo, 1981). It is a situation in which two or more persons up to a maximum of twenty combine to set up a business. The agreement that binds the partners together is called “Deed of Partnership”.

3.2 Types of Partnership

i. **Active Partner:** In this case, the partner is active in terms of provision of capital and participation in the business.
ii. **Passive Partner:** The partner supplies his own share of capital in the business but does not take part in the running and organisation of the business. He shares in the profit or loss but his loss is limited to the capital he invests in the business.

iii. **Nominal Partner:** This is applied to the partner who mainly contributes his popularity and prestige, but neither contributes any capital nor participates in the management of the business.

iv. **Secret Partner:** This partner takes part in the provision of capital and management of the business but his identity is hidden because of his official position.

v. **Quasi Partner:** In this case, the partner has withdrawn from the business, but has left behind the capital he contributed to the business. However, he continues to receive his own share of profits and losses in the business.

3.3 Advantages of Partnership

i. More capital is available than in the case of one-man business, therefore there are opportunities for business expansion and development

ii. It provides continuity in that if one partner dies, or retires, the others carry on with the business

iii. Partnerships enable the introduction of new blood into the business. The survival of the concern does not depend on one person; it depends on a joint effort with everyone contributing his best.

iv. The partners can borrow money since they can pool together all their assets than a single proprietor. It is therefore easier to borrow money in a group than on individual basis.

3.4 Disadvantages of Partnership

i. There can be arguments between the partners and this can lead to loss in the sense of direction.

ii. Decision takes a longer time since each partner has to be consulted on major issues.

iii. There is the problem of unlimited liability. Ordinary partners are liable for the liabilities of the business beyond the extent of their share of capital investment in the business.

iv. If the partners are emotionally tied together, they death of one partner can lead to a total disruption of the business.

v. Transfer of ownership may not be possible in a partnership as the other partners or some provisions in the deed of partnership may not permit such transfer.

vi. Partnerships are often less efficient than sole Proprietorship are often taken collectively. There is therefore the possibility of ineffective management as the business operations become larger.

4.0 CONCLUSION

In this unit, we have explained the meaning and types of partnership. A partnership is set up to overcome some of the disadvantages of sole proprietorship business enterprise. It is formed to enable different talents and expertise to function in one business.

5.0 SUMMARY

In this unit you learnt the following:

- That a business enterprise may be run by a group of people who form a partnership
- Partnership is of different types like Active, Passive, Nominal, Secret and Quasi partners.
- Partnership can be formed when there is need for a larger capital than the one which a sole proprietor would be able to obtain.
- The number of partners is limited to twenty except in some cases like solicitors, accountants and banking enterprise where the number can be less.
- Inspite of its advantages, partnership is faced with the problems of unlimited liability, ineffective management, lack of legal entity e.t.c

6.0 TUTOR-MARKED ASSIGNMENT

1) List and explain the various types of Partnership.
2) Discuss the advantages and disadvantages of Partnership.
3) Explain in detail, the concept of "Deed of Partnership".

7.0 REFERENCES/FURTHER READING

Anyaele, J.U. (1990). *Comprehensive Economics for Senior Secondary Schools*. Lagos: Johnson Publishers Ltd.

Ihimodu, I.I. (2012). *Perspectives on Agriculture and Rural Development in Nigeria*. Ilorin: Yori consulting and Development Services Ltd.

Stephen, N.M. & Osagie, E. (1985). *A Textbook of Economics for West African Students*. Ibadan, Nigeria: University Press Limited.

UNIT 3 LIMITED LIABILITY COMPANY

CONTENTS

1.0 INTRODUCTION

In unit 2 of this module, we discussed partnership form of business organisation. Under partnership we discussed the meaning of partnership and types of partners. We also discussed advantages and disadvantages of partnership. In this unit, we shall discuss Limited Liability Company. Under Limited Liability Company, emphasis will be on the types of Limited Liability Company, characteristics, formation, advantages and disadvantages.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- explain the meaning of Limited Liability Company
- list the characteristics of Limited Liability Company
- explain the formation of Limited Liability Company
- explain the advantages of Limited Liability Company
- explain the disadvantages of Limited Liability Company.

3.0 MAIN CONTENT

3.1 Meaning of Limited Liability Company

Limited Liability Company is an expansion of the partnership principle. It aims at securing a better method of mobilising financial resources. The company comes into existence when a number of persons join together to invest their money in a common enterprise. The liability of each investor for the debts of the business is limited to the amount of his capital invested in the company. The profits of the company are distributed in proportion to the shares subscribes and paid for. The limited liability company is owned and controlled by the shareholders. Each shareholder receivers a share of the profits called the dividend.

Limited Liability Companies are of two types the private liability company and the public limited liability company or the joint-stock company. The two types are essentially the same. The major difference between them is that in private limited liability company, the number of owners who are shareholders ranges from two to fifty. In public limited liability company, the minimum number of shareholders is seven and there is no maximum number. In addition, private limited liability company is called private because purchase of shares is restricted to only the founders. In contrast, public limited liability company is open to every body in the society who is interested in the ownership of the company.

3.2 Characteristics of Limited Liability Company

- **Number of Shareholders:** For private limited liability company, the number of shareholders ranges from two to fifty. For public Limited Liability Company, the number of shareholders starts from seven and no maximum.
- **Separate Legal Entity:** The business is a separate legal entity. It is recognized as a personality in law. The business can sue and be sued in its own name, without involving the owners. It is registered as a corporate body.
- **Limited Liability:** The shareholders have limited liability. In the event of business failure, the amount which a shareholder can loose is limited to his share or capital he has invested in the business. His personal assets are protected by the law.
- **There is Continuity of Business:** The withdrawal or death of a shareholder may not affect the existence of the company.
- **Board of Directors:** There is Board of Directors who controls the business of taking most of the major day to day decisions.
- **Acquisition of Capital:** Capital is raised through the issue of shares. Capital can also be raised through borrowing from financial institutions and issuing debentures.
- **Publication of Accounts:** Corporate business organisation must have its account publicized usually annually. It must submit an audited balance sheet to the Registrar of Companies for inspection.

3.3 Formation of a Limited Liability Company

A. **Filing of Documents with the Registrars:** The first step in the formation of a Limited Liability Company involves filling of documents with the Registrar of Companies. Such documents include:

i. Memorandum of Association
ii. Articles of Association
iii. Names of the company directors, and

iv. Letter of undertaking

The memorandum of association will include:

- The relationship of the company with outside world
- Name of the company
- The business address
- Objectives of the company
- The nature of the shareholders' liabilities
- The amount and type of shareholders' capital, e.t.c

The articles of association give the rules and regulations guiding the operation of the company. The document provides information on the following areas:

- The duties, rights and position of each member of the company
- Method of the appointment of directors
- The rights and powers of the directors
- How dividend are to be shared
- How general meetings are to be held
- Method of electing directors
- Voting rights of shareholders during elections
- Method of auditing the account of the company

B. The second step after the preparation and submission of the documents to the registrars of companies involved preparation of certificate of incorporation. If the registrar is satisfied that the business has met the necessary requirements for company formation, the registrar will then send a certificate of incorporation. The certificate of incorporation shows that the business has been recognised as a legal entity.

C. The third step is the submission of the company prospectus to the registrar of companies. The prospectus shows how the company has raised or wants to raise its capital.

D. The last step is the preparation of certificate of trading by the registrar of companies. The business can start functioning as soon as they receive trading certificate from the registrar of companies. All these legal procedures are necessary in order to protect the interested shareholders from being defrauded by a group of dubious people.

3.4 Advantages of Limited Liability Company

i. **Legal Entity:** The business has a separate legal entity and as a result, it is distinct from the owners. It can therefore, sue and be sued in its own right.

ii. **Limited Liability:** In the event of business failure, the maximum amount a shareholder can loose is the amount of capital he has contributed to the business. His personal assets are protected by law.

iii. **Large Capital:** The business has large resources of capital because of the large number of shareholders in the company. The company also finds it easy to borrow money because of its many assets which can be used as collateral.

iv. **Assurance of Continuity:** There is continuity of the business on the death or illness of the shareholder. The misfortunes of a shareholder do not affect the existence of the company and its operations.

v. **Transfer of Capital:** The shares of a public Limited Liability Company are easily transferable for cash. This form of business ownership has the advantage of allowing the shareholders to transfer their capital at will if they fell dissatisfied with the company.

vi. **Specialisation is Possible:** Division of labour is possible under this system of business ownership. Due to large number of people involved in running the business, the organisation is divided into various departments. This leads to greater efficiency.

vii. **Risks Reduction among Owners:** The business risks are shared among a large number of persons. The wider spread of risks results in reduced loss for each shareholder, in the event of business failure.

3.5 Disadvantages of Limited Liability Company

i. **Difficult to Establish:** Due to Government interest in this type of business organisation, the formalities for its establishment are usually very complicated. A number of requirements must be fulfilled before the business is registered as a company.

ii. **Required Large Amount of Capital:** Apart from the formalities required, to establish the business, company also requires huge amount of capital to start the business.

iii. **Delay in Decision Making:** There is delay in taking decisions because of the relatively large size of the business. Before any major policy change can be adopted by the manager, a meeting of shareholders or the board of directors has to be convened. All these may take quite a long time.

iv. **Lack of Privacy:** It is required by law for the company to make public all the financial activities and operations of the business. All vital documents and information concerning the business are also sent to the registrar of companies for inspection. All times, annual report of the company is published in the dailies.

v. **Ownership is Separated from Management:** Since the shareholders who are the owners of the business are separated from the management of the business, there may be a negative attitude among the managers towards the interest of the shareholders. The managers may embezzle the company’s fund since the business is not their own.

vi. **Lack of Cordial Relationship between Employers and Employees:** Unlike single proprietorship and partnership, the size of this company makes cordial relationship with employers and customers/employees impossible. The shareholders may not know each other. The owners may range into thousands and are scattered throughout the country.

vii. **Decrease in Personal Interest:** The type of interest, zeal and enthusiasms found in a business owned and controlled by one man is lacking in a Limited Liability Company. This is because the ownership is separated from the management.

SELF-ASSESSMENT EXERCISE

i. Differentiate between Limited Liability Company and Partnership form of business organisation
ii. Describe the process involved in the formation of a Limited Liability Company.

4.0 CONCLUSION

In this unit, you have learnt the meaning of a Limited Liability Company. We also discussed the two types of Limited Liability Company. The characteristics features of the business were also highlighted. In this unit, we also further highlighted the advantages and disadvantages of Limited Liability Company.

5.0 SUMMARY

In this unit, you have learnt that:

- Limited Liability is an association of individuals who agree to and jointly pool their capital together in order to establish and own a business.
- There are two types of Limited Liability Company-Private Limited Liability Company and Public Limited Liability Company.
- The characteristics features or Limited Liability Companies highlighted include: the number of shareholders, separate legal entity, limited liability, business continuity, there is board of directors, acquisition of capital and publication of accounts.
- There are four essential steps in the formation and establishment of a Limited Liability Company-filing of documents with the registrar of companies, preparation of certificate of incorporation, submission of company's prospectus and preparation of certificate of trading.
- The important areas touched under the advantages of Limited Liability Company include: Legal entity, limited liability, large capital, prospects of continuity, transfer of capital, possibility of specialisation and reduction in risks among owners.
- The major disadvantages highlighted include: difficult to establish, required large amount of capital, delay in decision making, lack of privacy, lack of cordial relationship between employer and employees, and decrease in personal interest.

6.0 TUTOR-MARKED ASSIGNMENT

1a. What is a Limited Liability Company?
b. Describe the characteristics of a Limited Liability Company.
2. List and discuss five advantages and five disadvantages of a Limited Liability Company.

7.0 REFERENCES/FURTHER READING

Adegeye, A.J., & J.S. Dittoh. (1985). *Essentials of Agricultural Economics*. Ibadan:Impact Publishers Ltd.

Anyaele, J.U. (1990). *Comprehensive Economics for Senior Secondary Schools*. Lagos: Johnson Publishers Ltd.

Olson, Kent .O. (2011). *Economics of Farm Management in a Global Setting*. United State of America: John Wiley and Songs.

Stephen, N.M. & Osagie, E. (1985). *A Textbook of Economics for West African Students*. Ibadan, Nigeria: University Press Limited.

UNIT 4 COOPERATIVE SOCIETY

CONTENTS

1.0 INTRODUCTION

In unit 3 of this module, we discussed Limited Liability Company as a form of business ownership. In the unit, we defined Limited Liability Company and identified the two major types of such organisation. We also looked at the characteristics of Limited Liability Company that distinguished it from other forms of business. We further discussed the processes involved in the formation of Limited Liability Company. Finally, we discussed the advantages and disadvantages of such business organisation. In the last unit of this module, we are going to concentrate our efforts in discussing cooperative as a form of business organisation. The topics covered include-the meaning of cooperative, characteristics of cooperative, types of cooperative, advantages and disadvantages of cooperative society.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- define Cooperative Society
- list the characteristic features of Cooperative Societies
- describe the various types of Cooperative Societies
- list and explain the advantages of Cooperative Societies as a form of business organisation
- list and explain the disadvantages of Cooperative Societies

3.0 MAIN CONTENT

3.1 Meaning of Cooperative Society

Cooperative is a form of business voluntarily owned, organised and upgraded by members for their mutual benefits. Unlike Limited Liability Company, the control is on their members and no individual is allowed to have controlling share. It is expected that most of the business of cooperative should be carried out with the member's patron, therefore, after paying all costs, the profit or surplus is returned to members in the form of patronage refund. If cooperative operate along such line, they obtain certain kind of assistance from government and they are usually exempted from taxes. The primary purpose of a cooperative business is to give good service to its members and to return any surplus or profit arising from this operation to its owners.

3.2 Characteristics of Cooperative Societies

i. **Open Membership:** This principle implies that cooperative business should be opened to all those who are interested. There is no limit to the size of its membership. It is usually opened to persons with similar interests who wish to join.
ii. **Democratic Control:** This principle implies the concept of one man one vote. Each member has one vote only and can stand for election into any office. They have equal rights. All the members take part in any major decision taking.
iii. **Limited Return on Capital:** Cooperative societies exist primarily to provide services to their members at the lowest possible cost; hence, cooperators should not expect to make large returns on their invested capital.
iv. **Patronage Dividend:** Profit made is shared to members according to their share contributions. This is meant to encourage people who are able to contribute more in the society to do so.
v. **Cash Transaction only:** Members of the cooperatives are expected to purchase or sell produce strictly on cash basis. This means that no credit is allowed.
vi. **Religious or Political Neutrality:** This implies that membership of cooperative society should be opened to all irrespective of religion, political or ethnic differences. This principle demonstrates the role of cooperative as a unifying factor in the society.
vii. **Constant Education of Members:** Members could be trained on simple farm hygiene livestock management, new production techniques like yam and fish farming. Cooperative education also helps to enlighten members on the important of cooperation.

3.3 Types of Cooperative Society

i. **Producers Cooperative Society:** Producers cooperatives or group farming cooperatives are organised in order to enable small farmers reap the benefits of large scale farming, collective purchase and use of heavy machinery and other equipments. Through such societies, improved farming methods can be practiced. Members of this society contribute money in order to buy or hire equipment, machinery and raw materials at reduced rates meant for the promotion of their productive activities.

ii. **Consumers Cooperative Society:** These are more concern with the sales of manufactured goods to members at minimum cost. Members pool their resources together in order to buy goods in bulk from the manufacturers. They by-pass the middlemen in order to get these goods at cheaper rates and then distribute to their members.

iii. **Marketing Cooperative Society:** The main objective of this society is to arrange for the sale of members' produce to encourage members to produce crops of high quality and promote cooperative spirit among the members. In addition, marketing cooperatives also provide loans and savings facilities to their members.

iv. **Thrift and Credit Cooperative Society:** The aims of thrift and credit cooperative society are the provision of savings facilities and the granting of loans to members. Credit limits are fixed for all members in relation to their savings. The rate of interest charged of loans varies but are generally low.

v. **Multipurpose Cooperative Society:** As the name implies, these types of organisation discharge two or more functions. Most multipurpose cooperatives assist members to purchase farming tools and other essential materials. They serve as village banks where members can keep savings and obtain loans. They also serve as agents for the distribution of fertilizers and improved seeds and seedlings. Some of them combine production with marketing and processing.

vi. **Other Types of Cooperative society:** Other forms of cooperative societies exist, they include: Agricultural Processing Cooperatives, Fishery Cooperative Society, Farmers Consumer Cooperative Society, Service Cooperative Society, e.t.c.

3.4 Advantages of Cooperative Societies

i. **Encouragement of Savings:** Cooperative thrift and credit societies encourage their members to save their money. This function is very important in Nigerian rural areas where commercial banks are very few. Left on their own, the individuals may not be able to save enough money for investment purpose.

ii. **Provision of Loans:** Cooperatives can raise loans for agricultural practices or other forms of production easily and at low interest rates. Cooperatives can borrow money more easily in bank than individual farmers. This is because they are in a better position to offer more collateral than individual farmers.

iii. **Education and Training of Members:** Cooperatives educate their members in the area of production, distribution, consumption and marketing of goods and services.

iv. **They are Democratic in Nature:** All members of the cooperative society have equal right to vote and be voted for. They have equal right to say how the society should be organised. In this way, cooperative society provides training in self-government and business management for its members.

v. **They Prevent Price Fluctuation:** The motive of forming cooperative society is not to make profit but to protect the welfare of their members. They buy most of their products in bulk and sell to members at low costs. This results in low prices of goods.

vi. **Avoidance of Cheating and Hoarding:** Cooperative societies are known for open service. The satisfaction of members is the ultimate goal of cooperatives. Since their members are their immediate customers, they can not afford to cheat their members. Hoarding is also avoided by the society.

vii. **Increased Standard of Living:** Through cooperatives societies, farmers have access to loans to increase their production capacity as well as to purchase essential items for the family. Cooperatives also purchase some manufactured goods and distributed same to members. All these are aimed at improving the living conditions of members.

viii. **Promote Unity Among Members:** Members of cooperatives are known to each other. They meet regularly and take decisions collectively. This personal interaction between members encourages inter-personal relationship among them.

3.5 Disadvantages of Cooperative

i. **Low Capital Base:** This problem arises because of the poor background of most rural farmers who form the bulk of these societies. Another problem is the unwillingness of members to pay-up their subscriptions.

ii. **Political Influence:** Even though cooperatives are not supposed to be in politics. Many of the societies have found their ways into politics. Some were forced to declare for a particular political party as against the wish of some members thereby causing conflict and rifts among them.

iii. **Illiteracy of Members:** Most members of cooperative societies in Nigeria are illiterates. The result is that most of them may be ignorant of the potential gains of cooperative. Apart from the gains, illiterate members may not understand the working and principles of these societies.

iv. **Weak Management:** Cooperative officers are drawn from among members who are mainly farmers; they may lack administrative and managerial competence to handle the business efficiently.

v. **Possibility of Embezzlement:** Reports of embezzlement of cooperative fund is very rampant. Some cooperative officers connive to use societies' money for their selfish benefits.

vi. **High Rate of Loan Default:** Occurrence of loan default is very common among cooperative members. Loan default occurs within the societies as well as the loan guaranteed by the societies from the banks. Most loans granted through cooperative societies are usually without much collateral security. Most members usually enjoy the loan but only few pay back the money in full.

vii. **Low Membership:** Unlike Limited Liability Company, there is still low membership of cooperatives in Nigeria. Even though there is no limit to the number of shareholders, only few people join cooperative business. This problem is probably due to lack of proper understanding of the principles and ideals of cooperatives.

SELF-ASSESSMENT EXERCISE

i. Distinguish cooperatives from other forms of business organisation.

ii. Describe the steps you would take to form a multi-purpose agricultural cooperative society.

4.0 CONCLUSION

In this unit, we have discussed the meaning of cooperative society. We have also discussed the characteristics of cooperatives that distinguish it from other forms of business. The various types of cooperative societies available were also discussed. The benefits derived from joining cooperatives were highlighted. Finally, the problems associated with cooperative movements were equally highlighted and discussed.

5.0 SUMMARY

In this unit, you have learnt that:

- Cooperatives are business organisations jointly organised, funded and operated for the mutual benefits of members.
- Some of the features of cooperatives that distinguish it from other forms of business organisations include: open membership, democratic control, limited return on capital, dividend based on patronage, cash transaction only, religion and political neutrality and education of members.
- Many types of cooperatives exist. They include: Producers' cooperatives, consumers' cooperatives, marketing cooperatives, thrift and credit cooperatives, multipurpose cooperatives.
- Some benefits of joining cooperatives include: encouragement of savings, provisions of loans, education and training of members, cooperative is democratic in nature, they prevent price fluctuations, they avoid cheating and hoarding of goods and improve the standard of living of members.
- The major disadvantages discussed include: low capital base, political influence, illiteracy of member, weak management, embezzlement of members' fund, high rate of loan default and low membership.

6.0 TUTOR-MARKED ASSIGNMENT

1a. What is Cooperative?

b. List and discuss any five types of Agricultural Cooperative known to you.

2. Discuss any five benefits a farmer will enjoy from joining a cooperative Society.

b. Discuss any five problems facing Agricultural Cooperatives in Nigeria.

7.0 REFERENCES/FURTHER READING

Adegeye, A. J. & Dittoh, J.S. (1985). *Essentials of Agricultural Economics.* Ibadan: Impact Publishers Nig. Ltd.

.

Ibitoye, S.J. (2008). *Principles of Farm Management.* Lagos: National Open University of Nigeria.

Falodun, A.B. Omogiafo, P.N. & Ezeaku, L.C. (2001). *Round-up Economics*. Nigeria: Longman Nigeria Plc.

MODULE 3 PRODUCTION PLANNING

Unit 1 Meaning of Production and Planning, Types of Production and Planning

CONTENTS

1.0 INTRODUCTION

In the last module, we learnt about the forms or types of agricultural management and organisations. We identified four types of business partnership, Limited Liability Company and cooperative societies. For each of these organisations, we explained the meaning, advantages, and disadvantages among other things. This module deals with production planning, meaning, types, characteristics, advantages and uses of planning as specified in respective units.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- define Production
- list and explain the types of Production
- define Production Planning
- explain the types of Planning.

3.0 MAIN CONTENT

3.1 Meaning of Production

Production is any activity that leads to the creation of goods and services. It is the act of creating goods and services needed to satisfy human wants; i.e. it includes the creation of tangible goods as well as services rendered to people and paid for by them.

3.2 Types of Production

i. **Primary Production:** This entails the harnessing or extraction of products in their natural form; i.e. extraction of raw materials from land, air and sea. Most production in agriculture and fishing is Primary Production.
ii. **Secondary Production:** This deals with conversion of basic raw materials into new products or their final forms that are acceptable to the consumers. For example, processing of cassava into garri and maize into cornflour.
iii. **Tertiary Production:** This covers commercial and professional services. It has to do with the provision of services that complement the other two categories of production.

3.3 Meaning of Production Planning: Any scheme of action prepared in advances is a plan. Production planning in agriculture is a process or technique for making plans about optimum choice and combination of production enterprises. It is continuous effort on the part of the producer to think about the production programmes in advance and adjust them according to the new knowledge on technical developments, changes in prices, natural resources such as rainfall and others.

3.4 Types of Planning

The production planning is a process for deciding in the present what to do in the future about the best combination of crops and livestock to be raised through rational use of available resources.

The planning can be classified into two parts.

i. Annual or short-term Planning
ii. Long-term Planning

i. The Short-term Planning implies one production period required for growing crop. In general, one agricultural year is taken into consideration. Short term decisions are imperative as the farmer has to bear its consequences immediately. It therefore requires to plan under noted aspect like allocation of land under different crops, labour use planning and satisfying immediate credit needs of farmers and arrangement for its payment.

ii. Long-term Planning: Long-term refers to a period more than one year. Long-term investment plays crucial role in agricultural development; hence, farmers should provide sufficient attention for long-term planning.
In general, farmers require taking long-term decisions in the following case. These include, land improvement, irrigation, farm houses, livestock development and purchasing machineries

4.0 CONCLUSION

In this unit we have learnt about production planning. We explained the meaning and types of production. We have primary, secondary and tertiary production. We have also explained the meaning of production planning and types of planning which can be classified into short-term planning and long-term planning.

5.0 SUMMARY

In this unit, we have learnt that:

- production is any activity that leads to creation of goods and services
- the types of production are primary, secondary and tertiary
- plan is any scheme of action prepared in advance and production planning is a process or technique for making plans about optimum choice and combination of production enterprises.
- Planning can be categorized into short-term planning and long-term planning. In short-term planning, one farming year is taken into consideration while long-term planning is a period more than one year.
- Farmers require taking long-term decisions in land improvement, irrigation, farm houses, livestock development and purchasing machineries.

6.0 TUTOR-MARKED ASSIGNMENT

(1) a. Define Production.
b. List and explain the types of Production.
2 Explain Production Planning and the types of Planning.

7.0 REFERENCES/FURTHER READING

Olson, Kent .O. (2011). *Economics of farm Management in a Global Setting*. United State of America: John Wiley and Sons.

Panda, S.C. (2011). *Farm Management and Agricultural Marketing*. New Delhi, India: Kalyami Publishers.

Subba, R.S., Ram, P., Sastry, T.V. & Bhavani, D.I. (2009). *Agricultural Economics*. New Delhi, India. Pvt.Ltd.

Udu, E. & Agu, G.A. (1995). *New System Economics*. Ibadan, Nigeria: Africana-fep Publishers Ltd.

UNIT 2 WHY PLANNING IS NECESSARY, CHARACTERISTICS OF GOOD PLAN AND FACTORS TO BE CONSIDERED IN PRODUCTION PLANNING

CONTENT

1.0 INTRODUCTION

In unit one, we explained the meaning and types of production. We also explained production planning and types of planning. This unit is devoted to necessity for planning, characteristics of good plan and factor to be considered in planning.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- give reasons why planning is necessary
- outline the characteristics of good plan
- list and explain the factors to be considered in planning.

3.0 MAIN CONTENT

3.1 Why Planning is Necessary

Planning is necessary for the following reasons:

i. To look into the future and decide on suitable course of action.
ii. To choose different farm activities which are suited to the given farm conditions.
iii. To select appropriate enterprise combinations that result in the better use of resources.
iv. To help the farmers in timing various jobs and operations for smooth conduct of operations without competition.
v. To avoid wastages that occur in the use of resources.
vi. To provide guidance and flexibility to the producers for ensuring better use and growth of the farm.
vii. To provide allocation of resources for producing the requisite products for marketing and household consumption.

3.2 Characteristics of Good Plan

The main characteristics of good plan are as follows:

i. The farm should be large, as well as productive enough, so that it can provide more profit to meet the financial needs of the family.
ii. The land use programme should provide the maximum income. This involves a good cropping pattern which will economise the labour and capital.
iii. The livestock system should be adjusted to the amounts and kind of feed available in the market for livestock products and skill and knowledge of the farmer.
iv. The family and hired human labour should be distributed properly to secure more yields from crop and returns from livestock
v. Enough power and machinery should be kept on the farm to do work timely and at least cost.
vi. The production practices included in the plan should be those which can be financed without undue risk and which provide products for the sale in the seasons when the prices are favourable. Such marketing agencies should be selected which will provide maximum returns of their produce.

3.3 Factors to be Considered in Production Planning

i. **Inventory of resources:** Inventory of resources should be taken at the beginning and end of the year. It includes appraisal of land, labour, capital and management.
ii. **Land:** The appraisal of the land will involve a determination of quality and quantity of the various types of soil. It will decide the adaptability of crops and possible yields. The location of land, irrigation facilities as well as fertility level are factors to be considered in arriving at an estimate of the value of land.
iii. **Labour:** An examination of human and bullock programme will lead to a much effective organisation of the business.
iv. **Capital:** This plays an important role in the farming business. It includes building, livestock, implements and machines and layout. At the beginning of the year, these capital items should be evaluated. After the end of the year, the value of depreciation is deducted from the initial inventory value.
v. **Management:** This determines the success of the business. It is a mental process and occurs when a farmer (i) Observes and secures ideas (ii) Analyses his observations and ideas (iii) makes decision on the basis of his analysis and.(iv) takes action on the basis of his decisions and accepts the responsibility and consequences of his decisions.

4.0 CONCLUSION

In this unit, we have learnt about reasons why production planning is necessary. We have also been able to identify the characteristics of good plan and explain factors to be considered in production planning.

5.0 SUMMARY

In this unit, you have learnt that:

- ❖ planning is necessary for some various reasons such as choice of appropriate enterprises combinations, avoiding wastages in the use of resources, allocation of resources, choice of different activities suited for some conditions etc.
- ❖ good plan has various characteristics such as keeping enough power and machinery, proper distribution of farming and hired human labour, proper adjustment of livestock system, land should be large and productive, land use programme should provide maximum income e.t.c.
- ❖ certain factors should be considered in production planning. The factors identified and explained are inventory of resources, land, labour, capital and management.

6.0 TUTOR-MARKED ASSIGNMENT

1. List and explain the factors to be considered in Production Planning.
2. Justify the need for Production Planning.
3. What are the main characteristics of a good plan?

7.0 REFERENCES/FURTHER READING

Agrawal, G.D. (1964). *Farm Planning and Management Manual*. Ibadan: Ministry of Agriculture and Natural Resources.

Barnard, C.S. (1973). *Farm Planning and control*. Combridge University Press.

Panda, S.C. (2011). *Farm Management and Agricultural Marketing*. New Delhi, India: Kalyami Publishers.

Upton, M. (1993). *Farm Management in Africa*. London: Oxford University Press.

UNIT 3 ADVANTAGES OF PRODUCTION PLANNING, USES OF PLANNING AND GUIDING PRINCIPLES OF PLANNING

CONTENT

1.0 INTRODUCTION

In unit two, we explained why planning is necessary. We also identified various characteristics of good and explained factors to be considered in production planning. This unit deals with advantages of production planning, uses and guiding principles of planning. It also discusses limitations of planning.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- explain the advantages of Production Planning
- state or highlight the uses of Farm Production Planning
- highlight the guiding principles of Planning
- discuss Limitations of Planning.

3.0 MAIN CONTENT

3.1 Advantages of Planning

Planning in Production has the following advantages.

i. **Increase in income:** It has been observed that careful plans have increased farmers income. Farmers' income can be increased because of the possibility of making desirable changes in the use of resources.
ii. **Proper Information:** Planning demands that cultivator should collect relevant information regarding various alternative methods and practices of production and marketing which might be useful to him in his business.
iii. **Viable Unit:** Planning increases viability of the farm and some fixed resources are also developed. For example, well for irrigation, land improvement, purchase of equipment can help the farmers to develop a viable farm unit.

iv. **Management of Credit Facilities:** Planning helps farmers to meet his credit needs. Cultivator can therefore arrange for credit in advance.
v. **Timely Action:** The farmer knows in advance the inputs to be purchased. He can therefore manage them well in time save cost.
vi. **Educational Process:** A well formulated plan can improve the managerial ability of the farmer with its attendant benefit.

3.2 Uses of Production Planning

I. It is helpful in determination of needed adjustments as a yardstick for agricultural credit. This will help give necessary assistance for agricultural finance.
ii. Proper planning can provide road to farmer's security.
iii. It helps or improves basis for calculation of agricultural income of the country at large.

3.3 Guiding Principles of Planning

i. Farm Planning shows rational combination of farm resources for enhanced production and output.
ii. Law of comparative advantages the net returns per hectare of a particular crop are determined by farm yield per hectare price of the output and low cost involved in its production. Therefore, high yield, high price and low cost are all indications of comparative advantages.
iii. It shows the proper combination of farm enterprises as regards complementary relationship of enterprises.

3.4 Limitations of Planning

Production planning has some obvious limitations despite its usefulness. Planning has been considered as time consuming and an expensive device. It encourages a false sense of security against risks. Forecasting methods, statistical data supplied are in some cases not accurate and the results of operations research cannot be applied to all cases that come under production planning.

Good plans should be based on actual recorded facts, particularly given the data on the availability and requirement of resources. The records provide adequate information for planning process. But it is unfortunate that relevant records are not given importance in many developing countries.

Though some records are maintained by farmers, but these suffer from inadequate and inaccurate data. The pertinent information in agriculture particularly in respect of climate, water supply, markets is not found in the required form. The sources of data for diagnoses and planning are also lacking. As a result, planning is not effectively formulated and implemented.

Therefore, relevant records derived from research stations and efficient farms in the locality should from the basis for scientific planning. Data from research stations should be continuously used for the planning since this may be more reliable.

4.0 CONCLUSION

In this unit, you have learnt about advantages of planning, uses of planning and guiding principles of planning. We have also discussed limitations of planning especially in developing countries.

5.0 SUMMARY

In this unit, you have learnt that:

i. planning has some advantages in terms of increase in income, proper information, viable unit, management of credit facilities, timely action and educational process.
ii. planning helps in the formulation and assessment of development projects, determination of needed adjustments for agricultural credit, provision for farmers security and basis for agricultural income of a country.
iii. Planning has guiding principles as regards rational combination of farm resources for enhanced production, low of comparative advantages and proper combination of farm enterprises in terms of complementary relationship.
iv. Planning has some limitations in the form time consuming and expensive device, inaccurate data and forecasting methods, less importance to relevant farm records, which are inadequate coupled with lack of sources of data for diagnosis and planning.

6.0 TUTOR-MARKED ASSIGNMENT

1. Discuss the advantages of Production Planning.
2. (a) What are the uses of Planning?
   (b) Highlight the guiding principles of Planning.
3. Discuss the limitations of Farm Production Planning in developing countries.

7.0 REFERENCES/ FURTHER READING

Adegeye, A.J. & Dittoh, J.S. (1985). *Essentials of Agricultural Economics*. Ibadan: Impact Publishers Nigeria Limited.

Barnard, C.S. (1973). *Farm Planning and Control*. Cambridge University Press.

Panda, S.C. (2011). *Farm Management and Agricultural Marketing*. New Delhi, India: Kalyami Publishers.

Subba, .R. .S, Ram, .P, Sastry, T.V. & Bhavani, Devi. I. (2009). *Agricultural Economics*. New Delhi, India: Pvt. Ltd.

MODULE 4 ECONOMICS OF AGRICULTURAL PROCESSING AND MARKETING MANAGEMENT

Unit 1 The Concept of Processing, Contribution of Agro-Processing and Constraints Relating to Agro-Processing

CONTENTS

1.0 INTRODUCTION

In the last module, you learnt about meaning of production and planning, why planning is necessary, and characteristics of good production plan. We also discussed the advantages of production planning, uses and guiding principles of planning. This module deals with economics of agricultural processing and marketing management.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- define Processing and Agro-Processing
- highlight constraints relating to Agro-Processing
- discuss contribution of Agro-Processing.

3.0 MAIN CONTENT

3.1 Concept of Processing

Processing is the conversion of farm produce into more consumable form. The example of processing is conversion of wheat into flours, processing of cassava into garri, preparation of butter ghee from milk, hulling of paddy into rice e.t.c.

Agro Processing: It generally entails changing the physical from of a commodity though its chemical composition might also be changed in the process.

3.2 Contribution of Agro-Processing

Processing is important in the production and marketing of perishable agricultural products like fruits and vegetables. Some of these crops are produced on a seasonal basis and without adequate processing and storage facilities; their supplies during the off-season will not be possible. Canning and vegetable ensures that the can be obtained at any time of the year and in good form too.

Since processing tends to enhance the quality of agricultural products, it creates demand for such products. With increasing rate of urbanisation in the country, the food requirement of the country has increased in terms of quantity and changed in terms of quality.

Processing also helps to increase the efficiency of marketing agricultural products. The removal of the non-consumable parts of a product during processing helps to reduce the bulk of the product and thereby reduces transportation costs.

Another important contribution of agro-processing towards increasing agricultural food production in the country lies in its ability to stimulate growth in the local agricultural production base. For instance, the establishment of canning industries in Zaria and Ibadan has given boost to agricultural production in these areas.

Agro-industries can also bring about the much needed infrastructure including roads, water, electricity supplies, schools and health services in rural areas in addition to generating employment opportunities. This implies that agro-industries have great potentials for stimulating growth in any agricultural production area in which they are established.

3.3 Constraints Relating to Agricultural Processing

The constraints are highlighted as follows:

i. Inadequate and irregular supply of raw materials
ii. Poor quality of raw materials
iii. Inadequate pre-investment planning

iv. Lack of technological base for a successful take off of agro-processing industries
v. Inadequate physical infrastructure
vi. Lack of adequate research to support promotion of processing.

SELF-ASSESSMENT EXERCISE

i. Explain the concepts of Processing and Agro-Processing.
ii. Highlight the Constraints relating to Agro-Processing.

4.0 CONCLUSION

In this unit, you have been exposed to explain he meaning of processing and agro-processing. The examples include conversion of wheat into flour, processing of cassava into garri, hulling of paddy into rice, processing of cocoa into cocoa powders and chocolate e.t.c. we have also discussed the contribution of agro-processing in terms of its importance in the production and marketing of perishable crops, creation of demand for agricultural products, efficiency in marketing agricultural products and its ability to stimulate growth in the local agricultural production base. Finally, we have highlighted the various constraints to agricultural processing in Nigeria.

5.0 SUMMARY

In this unit you have learnt that:

- Processing is the conversion of farm produce into more consumable form.
- Agro-processing entails changing the physical form of a commodity and the possibility of changing its chemical composition in the process.
- Agro-processing contributes to the production and marketing of perishable agricultural products, enhancing the quality of the products, creating demand for such products and stimulation of growth in agricultural production areas.
- Agro-processing is constrained by poor quality of raw materials, inadequate supply of raw materials, inadequate physical infrastructure, inadequate investment planning among others.

6.0 TUTOR-MARKED ASSIGNMENT

i. What are the contributions of agro-processing to Nigerian economy?
ii. Explain the various constraints relating to agricultural processing in Nigeria.

7.0 REFERENCES/FURTHER READING

Adegeye, A.J. & Dittoh, J.S. (1985). *Essentials of Agricultural Economics*. Ibadan: Impact Publishers Nigeria Limited.

Barnard, C.S. (1973). *Farm Planning and Control*. Cambridge University Press.

Olson, Kent .O. (2011). *Economics of Farm Management in a Global Setting*. United State of America: John Wiley and Songs.

Panda, S.C. (2011). *Farm Management and Agricultural Marketing*. New Delhi, India: Kalyami Publishers.

Subba, .R. .S, Ram, .P, Sastry, T.V. & Bhavani, Devi. I. (2009). *Agricultural Economics*. New Delhi, India: Pvt. Ltd.

UNIT 2 MEANING OF MARKETING AND MARKETING MANAGEMENT: CONCEPT OF AGRICULTURAL MARKETING AND PRE-REQUISITES FOR EFFICIENT AGRICULTURAL MARKETING

CONTENTS

1.0 INTRODUCTION

In the last unit, you learnt about agro-processing, constraints relating to agro-processing and contribution of agro-processing. This unit deals with the concepts of marketing, marketing management and agricultural marketing. It also deals with the pre-requisites for efficient agricultural marketing.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- define marketing and marketing management
- explain the concept of agricultural marketing
- highlight the pre-requisites for efficient agricultural marketing.

3.0 MAIN CONTENT

3.1 Meaning of Marketing

It is the performance of all business activities involved in the flow of goods and services from the point of initial agricultural production unit until they are in the hands of the ultimate consumer. Marketing includes all activities having to do with effecting changes in the ownership and possession of goods and services. Furthermore, it is that part of economics which deals with time and place and possession-utilities, and that place of business activity through which human wants are satisfied by the exchange of goods and services for some valuable consideration.

Agricultural Marketing

In a simple language, agricultural marketing is a process by which the producers and buyers of agricultural goods are brought together. It is the study of all the activities, agencies and policies involved in the procurement of farm inputs by the farmers and the movement of the agricultural products from the farms to the consumers. Agricultural marketing system is a link between the farm and non-farm sectors of the economy. It includes the organisation of agricultural raw materials. Supply to processing industries, the assessment of demand for farm inputs and raw materials and the policy relating to the marketing of farm products and inputs.

Marketing Management

This includes a wide spectrum of decisions and activities that are intended to satisfy customer needs and wants profitably. The full marketing process identifies customer needs, develops products and services to meet these needs, establishes promotional programmes and pricing policies, and implements a system of distribution to customers. It implies that agricultural marketing management is concerned with managing this process. Kotler (1988), gives a wider definition of marketing management as the planning, analysis, implementation and control of programmes designed to bring about desired exchanges with a target audience for the purpose of personal or mutual gains. In other words, marketing management implies the planning, analysis, implementation and control of the marketing process within the individual business firms.

3.2 Pre-requisites for Efficient Agricultural Marketing

i. **Storage facilities:** The farmers are expected to have adequate storage facilities. This is to enable farmers keep their produce for the future with a view to earning more profit.
ii. **Transportation Facilities:** Farmers are expected to have cheap and adequate transport facilities to be able to take their surplus to the towns or urban centres instead of selling them at the village level.
iii. **Adequate Information:** Farmers should have adequate information of the prevailing market conditions so that they may not be cheated. There should be organised and related markets when they can directly sell their produce.
iv. **Capacity to Hoard:** Farmers should be able to wait for times when they could get better prices of their produce. In a sense, they may not dispose of their surplus produce immediately after harvesting them.
v. **Fewer Intermediaries:** The number of intermediaries should be small so that the profits of middlemen may be reduced. This in-turn will increase the returns of the farmers.
vi. **Good Quality of Produce:** Produce with good quality tends to enjoy a universal market. The produce should be processed, pure and unadulterated. In the processing of different commodities more than one operation are sometimes needed in order to have good quality or produce.

vii. **Staying Power:** Producers or sellers must have staying power in order to command fair and better prices for their commodities.

viii. **Regulated Markets:** A good number of regulated markets should be set up in the country in order to be able to remove exploitative practices.

4.0 CONCLUSION

In this unit, you have been exposed to the meaning of marketing, agricultural marketing and marketing management. In all circumstances, agricultural marketing deals with all activities, agencies and policies involved in the procurement of farm inputs by the farmers and the movement of the agricultural products from the farms to the consumers. We have also been able to explain the pre-requisite for efficient agricultural marketing.

5.0 SUMMARY

In this unit you have learnt that:

i. marketing includes all activities having to do with effecting changes in the ownership and possession of goods and services.
ii. agricultural marketing is a process by which the producers and buyers of agricultural goods are bought together.
iii. marketing management implies the planning, analysis, implementation and control of the marketing process within the individual business firms.
iv. the farmers should have certain basic facilities to have the advantage of marketing of agricultural produce. These include storage facilities, transportation facilities, adequate information, capacity to hoard, good quality of produce, staying power agricultural marketing societies and regulated markets.

6.0 TUTOR-MARKED ASSIGNMENT

1) Explain the concepts of marketing, agricultural marketing and marketing management.
2) List and explain the pre-requisite for efficient agricultural marketing.

7.0 REFERENCES/FURTHER READING

Adegeye, A.J. & Dittoh, J.S. (1985). *Essentials of Agricultural Economics*. Ibadan: Impact Publishers Nigeria Limited.

Barnard, C.S. (1973). *Farm Planning and Control*. Cambridge University Press.

Olson, Kent .O. (2011). *Economics of Farm Management in a Global Setting*. United State of America: John Wiley and Songs.

Panda, S.C. (2011). *Farm Management and Agricultural Marketing*. New Delhi, India: Kalyami Publishers.

Subba, .R. .S, Ram, .P, Sastry, T.V. & Bhavani, Devi. I. (2009). *Agricultural Economics*. New Delhi, India: Pvt. Ltd.

UNIT 3 FUNCTIONS OF AGRICULTURAL MARKETING AND FUNCTIONS OF AN AGRICULTURAL MARKETING MANAGER

CONTENTS

1.0 INTRODUCTION

In the last unit, you learnt about the concepts of marketing, agricultural marketing and marketing management. You also learnt about prerequisite for efficient agricultural marketing. This unit deals with functions of agricultural marketing and functions of an agricultural marketing manager.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- define a marketing function
- list and explain the functions of agricultural marketing
- list and discuss the functions of an agricultural marketing manager.

3.0 MAIN CONTENT

3.1 FUNCTIONS OF AGRICULTURAL MARKETING

A Marketing Function may be defined as a major specialised activity performed in accomplishing the market process.

i. **Assembling:** This deals with collection of produce for sale in markets. It is of two types. The first one is bringing together of smaller amounts of a produce for greater convenience and economy in buying, transportation or processing. The second type of assembling occurs in the distribution of finished products. Wholesalers buy from many processors to have on hand the commodities wanted by retailers to supply to the consumers.

ii. **Grading and Standardisation:** Grading is the sorting out of the commodities into different groups on the basis of size, variety, taste, quality and colour. Such action may or may not conform to established standards. Grading and standardisation refer to grouping in accordance with predetermined standards. However, it must be noted that standardization is slightly different from grading since it fixes the grades and does not allow them to very from season to season and year to year.

iii. **Processing:** Agricultural commodities before reaching the consumers pass through one or more forms of processing. It is the conversion of farm produce into more consumable form, e.g. conversion of wheat into flour.

iv. **Transportation:** This entails physical movements of produce from the place of production to the final consumer. All means of transport namely road, rail, air and water are used in moving the produce from the place of production to its ultimate destination. Many products are transported several times at various stages as they move to processing centres and the finished products are distributed.

v. **Storage:** It is the holding of produce from the time of production until needed by the consumers. Agricultural production is seasonal but the demand for products extends throughout the year. Storage helps to spread out the market supply.

vi. **Financing:** It is the provision of money and credit necessary to carry products through the marketing channels. The farmer wants cash to perform the various marketing services like transportation, storing, processing and payment of other marketing changes as weighing, loading and unloading.

vii. **Distributing:** It relates to dispersing, retailing and marketing of produce. The average consumer wants small quantities of many different products. Distribution bridges the gap between the wholesalers and a large number of consumers. Distributing is therefore the dispersion of produce from the wholesalers to the retail market from where the consumers receive the commodities.

viii. **Packaging:** It is the packing or covering the product in such sizes and pattern as to be most marketable. Packaging has the following objectives, namely, to facilitate the handing of product, to reduce the storage and marketing cost, to prevent loss by deterioration and rob and to make products more attractive.

ix. **Market Intelligence:** This refers to the information services about the markets. The farmers should have accurate, adequate and timely information regarding the price of different commodities. It is vital that both buyer and seller possess adequate and up –to-date information about the market conditions when negotiating price.

3.2 Functions of an Agricultural Marketing Manager

The basic functions of a marketing manager are:

- Planning
- Coordination
- Motivation

- Monitoring and Control
- **Planning:** It is the duty of the marketing manager to determine the broad strategy which will direct the operations of the marketing firm and prepare the basis and methods by which the operation is to be carried out. It therefore means t hat the marketing manager has to decide on how to mobilise available human and material resources in order to achieve the firm's objectives.
- **Coordination:** It involves balancing and keeping together the team that constitutes the workforce by ensuring that the tasks are performed with the harmony among members of the workforce. Coordination involves getting things done through other people. A good marketing manager must be able to resolve disagreements and contradictions within the system.
- **Motivation:** The essence of this is to get members of the workforce pull their weight effectively, give strong support and their unalloyed loyalty to the group or team. Motivation implies the introduction of some inducements and incentives which will make the workers give out their best. Generally, each member of the workforce is expected to play an effective role in the job the group has undertaken to perform, and thus the manager by his action, can motivate and inspire the workers to put in their best for the good of the firm.
- **Monitoring and Control:** This is the process of monitoring the performance of the marketing firm against set standards. It is done by taking measurements of outputs and inputs used and estimating the efficiency of the business to ensure that it is progressing according to plan. Furthermore, it makes the necessary adjustments quickly before things get out of hand in order to achieve the set objectives of the firm or not to go too far from the objectives.

4.0 CONCLUSION

In this unit, you learnt about Marketing Function and functions of Agricultural Marketing. You have also been exposed to the basic functions of an Agricultural Marketing Manager in terms of planning, coordination, motivation, monitoring and control.

5.0 SUMMARY

In this unit, you learnt that:

i. marketing function is a major specialised activity performed in accomplishing the market process.

ii. the functions of agricultural marketing are: assembling, grading and standardisation, processing, transportation, storage, financing, distributing and packaging.

iii. an agricultural marketing manager performs the basic functions of planning, coordination, motivation, monitoring and control.

6.0 TUTOR-MARKED ASSIGNMENT

1) Outline and discuss the functions of Agricultural Marketing.
2) Explain the main functions performed by an Agricultural Marketing Manager.

7.0 REFERENCES/FURTHER READING

Adegeye, A.J. & Dittoh, J.S. (1985). *Essentials of Agricultural Economics*. Ibadan: Impact Publishers Nigeria Limited.

Barnard, C.S. (1973). *Farm Planning and Control*. Cambridge University Press.

Olson, Kent .O. (2011). *Economics of Farm Management in a Global Setting*. United State of America: John Wiley and Songs.

Panda, S.C. (2011). *Farm Management and Agricultural Marketing*. New Delhi, India: Kalyami Publishers.

Subba, .R. .S, Ram, .P, Sastry, T.V. & Bhavani, Devi. I. (2009). *Agricultural Economics*. New Delhi, India: Oxford and IBH Publishing co. PVT.LTD.

Upton, .M. (1973). *Farm Management in Africa*. Oxford University Press.

UNIT 4 PROBLEMS IN AGRICULTURAL MARKETING AND SOLUTION TO THE PROBLEMS

CONTENTS

1.0 INTRODUCTION

In the last unit, we learnt about functions of agricultural marketing and functions of an agricultural Marketing Manager. In this unit, we discuss problems of agricultural marketing and how to solve the problems.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- outline and explain the problems of agricultural marketing
- highlight measures to solve the problems of agricultural marketing

3.0 MAIN CONTENT

3.1 Problems of Agricultural Marketing

The major problems faced by the farmers in the process of marketing their produce are listed and discussed as follows:

i. **Lack of Organisation:** Due to scattered production, lack of regional specialisation and predominance of village sales, there is no collective organisation among the farmers. The farmers are exploited by the village agents, itinerant dealers and other middlemen.

ii. **Forced Sale:** Mostly, after harvesting, farmers are forced to sell to the village buyers, at cheaper rates. These middlemen generally, advance loan to the farmers for production of crops and in lien of that they take the produce from them at cheaper rates. Due to their poverty and indebtedness, lack of staying power and the need for money, the produce is sold soon after the harvest.

iii. **Excessive Supply of Produce just After harvesting:** Due to lack of retailing capacity of the farmers there is abundance supply of the commodities soon after harvesting, which leads to go down. The farmers get less amount of their produce.

iv. **A long Chain of Intermediaries:** There is a long chain of the middlemen in between producers and consumers. This group of people functions at various stages on one hand and consumers on the other hand.

v. **Absence of Proper Grading and Standardization of Agricultural Produce:** Majority of farmers dispose of their produce without proper grading. The produce is sold together in one lot. In the absence of certain standard grades the producers get the ordinary market rate. The un-graded of mixed quality has reduced the reputation of agricultural produce in the market.

vi. **Lack of Efficient Transport:** In Nigeria the means of transport are inadequate and inefficient. The transportation of harvested crops from field to threshing floor and produce from village to town is very poor and defective. The roads are poor and in rainy season it becomes difficult to transport the commodities from village to the town.

vii. **Adulteration:** Dirt or foreign matter, stones, non-food grains, other varieties of food grains and other matters are mixed with the produce. Due to adulteration, the farmers get less amount of their produce.

viii. **Inadequate Storage and Warehousing Facilities:** In the villages the farmers store their commodities in pits, bans and silos. These indigenous methods of storage do not adequately protect the produce from dampness, weevils and spoilage. In the absence of proper storage and warehousing facilities, farmers are unable to store their produce for a longer period of time. Thus, they do not get the proper price for their produce.

ix. **Lack of Financial Facilities:** The farmers want money to perform various marketing services. The farmers borrow money from different money lenders and agents at higher rate of interest. The farmers are forced to sell their produce at cheaper rates to these financing agents. The high rate of interest leads to a rise in the cost of marketing with the ultimate result the producer's share in consumer's is reduced.

x. **Multiplicity of Market Charges:** The producers pay various marketing charges in the marketing of produce. These charges reduce considerably the return to the producers from the sale of their produce.

xi. **Lack of Market Intelligence:** Absence of up-to-date information about the markets is another defect. The farmers do not get accurate and timely information regarding prices of the produce. They mostly depend on village about prices and charges for various marketing services. Due to illiteracy of farmers they are unable to understand the procurement and support price, wholesale and retail price as announced by the government from time to time on radio and published in newspapers etc.

3.2 How to Solve the Problems of Agricultural Marketing

To solve the problems, the following solutions are proffered:

i. Improvement of transport facilities and communication services
ii. Establishment of regulated markets with a view to protect the farmers from the malpractices of sellers and brokers.
iii. Standardisation of weights and measures
iv. Adoption of measures to secure improved quality of produce by organisation amongst buyers and traders and to guard against adulteration.
v. Fixation of standards and grades of commodities
vi. Promotion of cooperative sale societies and suitable organisations for purpose of sale.
vii. Holding of auction sales by the agricultural departments to ensure increased price to activators who produce improved varieties.
viii. Carrying out of market surveys
ix. Appointment of expert and highly experienced marketing officers
x. Building of storage facilities especially warehouses by cooperative societies.
xi. Provision of adequate financing in the rural areas to assist the peasant farmers who constitute the majority of farmers.

4.0 CONCLUSION

In this unit, you have learnt about the problems of agricultural marketing and how to solve the inherent problems of agricultural marketing. The existing system of marketing is in many ways defective. The farmers are generally not paid due share of their produce. To solve the problems of agricultural marketing, the various arms of government, institutions and organisations have crucial role to play.

5.0 SUMMARY

In this unit, you have learnt that:

i. agricultural marketing and the farmers face a lot of problems.
ii. the problems are lack of organisation, lack of efficient transport, adulteration, lack of financial facilities, inadequate storage and warehousing facilities, low standard of weights and measures, lack of market intelligence e.t.c
iii. the solution to the problems of agricultural marketing among others are: improvement of transport facilities, establishment of agricultural market, standardisation of weights and measures, carrying of market surveys, building of warehouses and provision of finance.

6.0 TUTOR-MARKED ASSIGNMENT

i. List and discuss the problems of Agricultural Marketing in Nigeria

ii. In what ways can the problems of Agricultural Marketing be solved in Nigeria?

7.0 REFERENCES/FURTHER READING

Abbot, J.C. & Makeham, J.P. (1979). *Agricultural Economics and Marketing in the Tropics*. London: Longman.

Adegeye, A.J. & Dittoh, J.S. (1985). *Essentials of Agricultural Economics*. Ibadan: Impact Publishers Nigeria Limited.

Panda, S.C. (2011). *Farm Management and Agricultural Marketing*. New Delhi, India: Kalyami Publishers.

Shepherd, G.S. & G.A. Futrell. (1970). *Marketing Farm Products: Economic Analysis*. Iowa State University Press.

Subba, .R. .S, Ram, .P, Sastry, T.V. & Bhavani, Devi. I. (2009). *Agricultural Economics*. New Delhi, India: Oxford and IBH Publishing co. PVT.LTD.

MODULE 5 AGRICULTURAL FINANCE AND FARM CREDIT

UNIT 1 MEANING AND FEATURES OF AGRICULTURAL FINANCE

CONTENTS

1.0 INTRODUCTION

In module 4, you were exposed to the concept of processing, contributions of agro-processing and constraints relating to agro-processing. In unit 2, we explained the meaning of marketing and marketing management. We also highlighted the pre-requisites for efficient agricultural marketing. In unit 3, we discussed functions of Agricultural Marketing and a Marketing Manager. Finally in unit 4, we discussed problems of Agricultural Marketing and solution to the problems. This module is focused on discussing agricultural finance and farm credit. The module is divided into four units.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- define agricultural finance
- explain macro and micro aspects of agricultural finance
- discuss the features of Agricultural Finance.

3.0 MAIN CONTENT

3.1 Meaning of Agricultural Finance

Agricultural Finance, generally, means studying, examining and analysing the financial aspects pertaining to farm business, which is the core sector of the economy. The financial aspects include money matters relating to production of agricultural products and their disposal. When we speak of financial aspects in agriculture, issues involved are capital required for agriculture, the necessary funds that are raised and the pattern of utilisation of funds so raised. Agricultural finance can also be defined as a branch of agricultural economics, which deals with the provisions, and management of bank services and financial farm units (Tendon and Dhonolyal: 1962).

3.2 Macro and Micro Aspects of Agricultural Finance

Agricultural finance is viewed both at macro and micro levels. Macro finance deals with the different sources of raising funds for agriculture as a whole in the economy and it is also concerned with the lending procedures, rules, regulations, monitoring and controlling procedures of different agricultural institutions. Macro finance deals with the aspects relating to total credit needs of the agricultural sector, the terms and conditions under which the credit is available and the method of using the total credit for the development of agriculture. On the other hand, micro finance refers to the financial management of the individual farm business.

3.3 Features of Agricultural Finance

In Nigeria, agricultural finance has some special features which are listed and discussed below:

i. **Risks in Agriculture:** In agriculture sector, it is difficult to foresee risks and uncertainties. A farmer has to face numberless risks and uncertainties as droughts, floods e.t.c. it may cause considerable damage to the farmer. Moreover, agricultural produce tends to deteriorate in storage due to lack of proper storage facilities to hold back surplus when supply exceeds demand. It leads to further difficulties. Thus, with so many uncertainties, agriculture has always been a risky affair to be handled by the commercial banks and insurance companies.
ii. **Difficulties of Co-operation in Agriculture:** in agricultural sector, there is a very little scope of co-operation. It is so because; farmers are mostly individualistic and are suspicious of co-operating with each other for a common purpose. This creates difficulties to the farmers in getting cheap credit.
iii. **Economic Lags in Agriculture:** In agricultural production process, there is a long interval between the reward and effort especially during the period when costs are incurred. During the period, demand for agricultural produce may change upsetting the financial adjustments of the farmers. In

this way, farmers have to bear another uncertainty. This becomes an excuse for credit supplying agencies to refuse credit for farm operations.

iv. **Credit for Consumption Purpose:** Nigerian farmers require credit not only for production purposes but also for consumption purposes. In the case of crop failure, small farmers need credit which they spend on consumption requirements. Moreover, Nigerian farmers are accustomed to spend beyond their means on social and religious functions. In addition to all these, litigation is another important non-productive requirement for funds.

v. **Small Size of Farm:** In Nigeria size of farms is very small in comparison to the amount of labour employed and the extent of the capital invested. Moreover, there is no control over the yield and the quality of the produce. Thus, there is lack of security to be offered for loans.

vi. **Lack of Proper Securities:** The large farmers have their own resources which enable them to raise funds from the credit institutions. Small farmers find it extremely difficult to raise credit for their needs. It is due to the reason that small farmers neither possess proper securities to pledge against loans, not they have adequate repaying capacity. As a result, small farmers are forced to go to the money lenders.

vii. **Complex of Many Industries:** Agriculture is an industries complex of varying types of production and marketing. The size of holdings and forms of land tenure differ from one area to anther. These differences create different types of complex relations between the farmers which makes financing of agricultural sector relatively difficult.

4.0 CONCLUSION

In this unit, we have been able to define and explain the meaning of agricultural finance. We have also been able to explain macro and micro aspects of agricultural finance. Finally, we have listed and discussed special features of agricultural finance in our country.

5.0 SUMMARY

In this unit, we have learnt that:

i. Agricultural finance is a branch of agricultural economics which deals with the provision and management of bank services and financial resources related to individual farm units.

ii. Micro finance deals with the financial management of the individual farm business, while macro finance deals with the aspects relating to total credit needs of the agricultural sector, the terms and conditions under which the credit is available and the method of using the total credit for the development of agriculture.

iii. Agricultural finance has special features such as risks in agriculture, economic lags in agriculture, small size of farm, difficulties of cooperation, credit for consumption purpose, lack of proper securities and complex of many industries.

6.0 TUTOR-MARKED ASSIGNMENT

i. What is Agricultural Finance?
ii. What is the difference between Micro and Macro aspects of Agricultural Finance
iii. Outline and discuss special features of Agricultural Finance in Nigeria.

7.0 REFERENCES/FURTHER READING

Abbot, J.C. & Makeham, J.P. (1979). *Agricultural Economics and Marketing in the Tropics*. Longman: London.

Adegeye, A.J. & Dittoh, J.S. (1985). *Essentials of Agricultural Economics*. Ibadan: Impact Publishers Nig. Ltd.

Beneke, R.R. (1955). *Managing the Farms*. New-York: John Wiley and Co.Inc.

Nelson, A.G. *et al*. (1973). *Agricultural Finance*. Iowa State University Press.

Panda, S.C. (2011). *Farm Management and Agricultural Marketing*. New Delhi, India: Kalyami Publishers.

Subba, Reddy, S., Roghu, Ram, P.,(1990). *Agricultural Finance and Management.* New-Delhi, India PVt. Ltd.

Subba, Reddy, .S., Roghu, Ram, P., Sastry, Neelakanta, T.V. & Bhavani. D.I. (2009). *Agricultural Economics*. New-Delhi, Oxford and IBH Publishing Co. PVT. LTD.

UNIT 2 PROBLEMS OF AGRICULTURAL FINANCE AND SUGGESTIONS TO IMPROVE AGRICULTURAL FINANCE

CONTENTS

1.0 INTRODUCTION

In the last unit, you learnt about the meaning of Agricultural Finance and the concepts of micro and macro aspects of agricultural finance. We also discussed the features of agricultural finance in Nigeria. This unit deals with problems of agricultural finance and suggestions to improve agricultural finance.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- Discuss the problems of Agricultural Finance
- Discuss suggestions to improve Agricultural Finance.

3.0 MAIN CONTENT

3.1 Problems of Agricultural Finance

In Nigeria, governments have been making efforts to increase the flow of credit in the agricultural sector. However, there are certain problems of agriculture credit that need to be discussed. The problems are therefore highlighted as follows:

i. **Complicated Procedures of Loans:** It has been observed that number of formalities is to be completed to avail credit facilities. Majority of farmers are illiterate and are unable to furnish requisite informational. Therefore, farmers prefer to borrow from money lenders and pay higher rate of interest. Moreover, there is large time gap between submission of loan application and sanction of loans.

ii. **Wastage of Time and Man Power:** Most of the financial institutions like commercial Banks, State Cooperative Backset. Are situated in cities. Farmers have to visit the bank offices for a number of times to fulfill many formalities leading to the sanction of loans. Thus, results in wastage of time and main power.

iii. **Lack of Co-ordination:** Another problem of agricultural finance is that the co-operatives and commercial banks lack of co-ordination in respect of credit planning. This results in overlapping as commercial banks credit flows to those areas where due credit structure is strong and areas of low credit availability remain deprived. Therefore, paucity of funds has been greatly responsible for low production agriculture, thus, poverty of the cultivators.

iv. **Improper utilisation of Loans:** It has been observed that there is a gap between disbursement and requirement in the farm sector. The situation becomes more pitiable when the granted loans are being improperly utilised by the farmers. In other words, the loans are used for unproductive purposes in rural areas of the country.

v. **Inefficient Administration:** Still another problem faced is that co-operatives and commercial banks are managed by inefficient and incapable persons. These organisations possess inadequacies which are difficult to handle easily. Obviously, they do not work for the betterment of farming community. Rather, they are keen on their personal benefits.

vi. **Mounting over dues:** The stagnation of agriculture has caused mounting over dues. The efforts to wipe off loans in some parts of the country can be seriously viewed. In fact, it has set an undesirable precedent and will hamper the development of agricultural sector in future.

vii. **No Provision of Consumption Loans:** Due to the seasonal nature of farm income, peasants need credit both for production purpose of durable consumption goods but this facility is limited to urban areas. Therefore, farmers are compelled to borrow from money lenders for consumption needs who suck their blood by using malpractices.

viii. **Low Rate of Share in Development:** Since there is low productivity in agriculture, so it has led to a low share in the economic development. This is due to non adoption of latest technology. This evidence shows that commercial banks still prefer industry and trade as the safest field to invest rather the agricultural sector. Moreover, large amount of the total credit facilities are pocketed by rich farmers, leaving poor cultivators at the mercy of unscrupulous money lenders. The same pattern is common in loan disbursement of co-operatives as they are managed by the well to do farmers.

ix. **Lack of Savings:** There is lack of rural savings in the country. Whatever rural savings exist fall short of rural needs and that is why there is a greater need for outside finance in the rural areas of the country. What is needed is not the mobilisation of rural savings but the efforts to make rural savings possible.

x. **Predominance of Private Agencies:** in Nigeria, there exist the private agencies. There is an urgent need for the substitution of private agencies as we have been able to do I n the sphere of industrial finance in the country. Institutional credit may be private or otherwise, but the continuance of professional money lenders as the major source of finance to cultivators can not solve the problem of rural finance “where larger production is the aim, the money lender’s credit is obviously unsuitable. The alternative is institutional credit, private or otherwise but his tends more than ever to confine itself to the bigger cultivators if it is not channeled through some form of co-operative association of the borrowers.

3.2 Suggestions to Improve Agricultural Finance

The need to increase institutional credit –flow to agricultural sector and to modernise it cannot be over emphasized. To this end, some suggestions are made to improve the agricultural finance.

i. **Repayment of Loans:** In this case, government should take strong and meaningful measures to ensure appropriate repayment facilities and provide necessary assistance to institutional credit agencies for loans recovery. It is expected that this will increase loan capacity of credit institutions to supply more loans to the farmers.
ii. **Reduction in Regional Imbalance:** To reduce differences in the various parts of the country, new bank branches should be opened in rural areas; banks should be directed to provide loan to only small and marginal farmers at cheaper rate of interest.
iii. **Provision of Consumption Loans:** To check the exploitation made by money lenders, cooperatives and commercial banks should come forward to extend the facility of consumption loans to rural people. Once they are free from the exploitative tendencies of money lenders, they will think to sell their produce at market price; hence it will help to raise their farm income.
iv. **Co-ordination of Credit Agencies:** In this case, sincere efforts should be made to coordinate the functioning of various institutions of cooperative societies and commercial banks. These agencies may complement each other to meet the requirements of rural agricultural community. This process will certainly lead farmers to adopt moderate and modern farm technology.
v. **Proper Utilisation of Loans:** This can lead to enhance crop productivity. To ensure proper utilisation of loans by the farmers or cultivators, special cell should be created in all credit institutions. They should keep close watch to ensure that the loans are being utilised for the purpose for which such loans are granted.
vi. **Suitable Representation:** Proper representation to small and marginal farmers in the management of cooperative institution will give the feeling of responsibility. In this case, they themselves watch the interests of their community for the purpose of granting loans.

4.0 CONCLUSION

In this unit, we have been able to discuss problems of agricultural finance. We have also listed and discussed suggestions to improve agricultural finance.

5.0 SUMMARY

In this unit, we have learnt that:

i. there are certain problems of agricultural finance inspite of various efforts taken by the government to raise the flow of credit in the agricultural sector of the economy. The problems among others are lack of coordination, limited coverage, complicated loans procedures, improper utilisation of loans, inefficient administration, lack of saving, predominance of private agencies and wastage of time and manpower.
ii. there is need to increase institutional credit flow to agricultural sector and to modernise it. To this end, few suggestions have been made to improve agricultural finance. They include reduction in regional imbalances, provision of facility of consumption loan, repayment of loans, coordination among credit agencies, proper utilisation of loans and suitable representation.

6.0 TUTOR-MARKED ASSIGNMENT

i. List and discuss the problems of Agricultural Finance in Nigeria.
ii. In what ways can Agricultural Finance be improved in Nigeria?

7.0 REFERENCES/FURTHER READING

Abbot, J.C. & Makeham, J.P. (1979). *Agricultural Economics and Marketing in the Tropics*. Longman: London.

Adegeye, A.J. & Dittoh, J.S. (1985). *Essentials of Agricultural Economics*. Ibadan: Impact Publishers Nig. Ltd.

Beneke, R.R. (1955). *Managing the Farms*. New-York: John Wiley and Co.Inc.

Nelson, A.G. *et al*. (1973). *Agricultural Finance*. Iowa State University Press.

Panda, S.C. (2011). *Farm Management and Agricultural Marketing*. New Delhi, India: Kalyami Publishers.

Subba, Reddy, S., Roghu, Ram, P.,(1990). *Agricultural Finance and Management.* New-Delhi, India PVt. Ltd.

Subba, Reddy, .S., Roghu, Ram, P., Sastry, Neelakanta, T.V. & Bhavani. D.I. (2009). *Agricultural Economics*. New-Delhi, Oxford and IBH Publishing Co. PVT. LTD.

UNIT 3 MEANING, CLASSIFICATION AND CHARACTERISTICS OF AGRICULTURAL CREDIT

CONTENTS

1.0 INTRODUCTION

In the last unit, you learnt about problems of Agricultural Finance and suggestions to improve agricultural finance. This unit deals with meaning of credit, classification of agricultural credit and characteristics of agricultural credit.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- define or explain credit
- discuss the characteristics of agricultural credit
- highlight the classification of agricultural credit.

3.0 MAIN CONTENT

3.1 Meaning of Credit

The word credit is derived from the Latin word “Credo” meaning “I believed” “or” I have confidence in”. In economics, the term credit implies the postponement of payment. It is certain amount of money provided for certain purpose on certain conditions with some interest which should be repaid sooner or later.

3.2 Characteristics of Agricultural Credit

The characteristics are given below:

i. Agriculture, instead of a single homogenous industry is an industrial complex of many different types of production and marking. The size of holdings forms of land tenure and methods of production differ a good deal from country to country. These differences give rise to many different kinds of complex relations between farmers on the one hand and middlemen, manufactures and consumers on the other. This complex nature of agriculture makes the financing of it relatively more difficult than the financing of industry and trade.

ii. There is little scope of combination in agriculture industry because farmers are mostly individualistic and extremely suspicious of combining with each other for a common purpose. The nature of farm economy develops social characteristics and habits of mind that raise a barrier to corporate effort. The absence of combination in agriculture makes it difficult for the farmer to obtain cheap credit.

iii. Uncertainty in agriculture- which is present throughout the productive process, also affects the capacity of the farmer to obtain credit. Natural forces such as flood or drought may cause unexpected but considerable losses to the agriculturists. Further, most of the agricultural products tend to perish in storage and the difficulties of holding back surplus when supply exceeds demand, are very great. All these peculiar characteristics of agriculture marketing it highly uncertain makes credit agencies unwilling to lend money to agriculturist except at very high rate of interest.

iv. The productive process in agriculture is such that there is a long interval between the reward and effort. During this interval, the demand for agricultural product may change upsetting the calculations of the farmer. This introduces another uncertainty and another important reason for the credit supplying agencies to refuse credit to farm operator.

v. While an industrialist or businessman is able to borrow against stock of goods, machinery e.t.c which can be easily converted into cash, the farmer has only his land as security against his loan, but land is not an asset which can be easily and quickly converted into cash. If farmers are prepared to borrow against their marketable surplus of food grains or raw materials, it should be easy for them to raise funds but this is generally not the case because farmers need funds to finance production and not marketing. The absence of a tangible security except land and the tendency to borrow for production rather than for marketing, are two important reasons which prevent lending institutions particularly commercial banks from lending to the farmers.

vi. Finally, farmers, particularly the small farmers need credit not only for production purposes but also for consumption requirements. In the periods of crop failure, most of the credit obtained by farmers of limited means is spent on providing consumption requirements to them and their families. Moreover, traditionally the farmers of under-developed countries are accustomed to spend beyond their means on social and religious functions e.t.c. litigation is another important non-productive requirement for funds.

3.3 Classification on Agricultural Credit

A brief explanation on this classification is given below:

1) **Period –wise Classification**

   i. **Short term credit:** It is given to meet current farm expenses such as purchase of seed, manure and fertilizers, payment of wages to hired human labour.

   ii. **Medium term credit:** it is given to purchase livestock and farm machineries etc.

   iii. **Long term credit:** It is given for purpose of land, construction of farm buildings, purchase of tractor and installation of tube wells.

2) **Purpose-wise Classification**

   i. **Directly Productive:** It includes money spent on cultivation, the purchase of cattle and machines etc.

   ii. **Indirectly Productive:** Money spent on payment of land revenue, repayment of old debts, and education is indirectly productive.

   iii. **Unproductive:** Money spent on litigation and social and religious ceremonies will come under unproductive credit.

3) **Security-wise Classification**

   i. **Personal Security:** The credit which is given on the basis of security of other persons is called personal security credit.

   ii. **Land Security:** Under this, credit is given on the basis of land security.

   iii. **Chattel Security:** The credit which is given on the society of capital such as livestock, crops e.t.c is called chattel security credit.

   iv. **Collateral Credit;** it is given on the basis of shares, bonds, insurance policy, etc.

4) **Creditor-wise Classification**

   i. **Private Credit:** Credit obtained from private agencies such as money lenders, traders, commission agents, relatives etc. is called private credit.

   ii. **Institutional Credit:** Credit obtained from government, cooperatives, or banks is called Institutional credit.

4.0 CONCLUSION

In this unit, we have been able to define credit. You have also been exposed to the characteristics of Agricultural Credit and classification of agricultural credit. Farm finance is concerned with the acquisition and management of capital for construction of buildings, purchase of livestock, implements and machineries, seeds, fertilizers and insecticides. To this end, different types of credit are required.

5.0 SUMMARY

In this unit, you have learnt that:

i. Credit or loans are certain amount of money provided for certain purpose on certain conditions with some interest, which should be repaid at certain period of time.
ii. Agricultural Credit may be classified period-wise, purpose-wise, security-wise and creditor-wise. Or it can be based on purpose, time, security and liquidity.

6.0 TUTOR-MARKED ASSIGNMENT

i. Define credit or loan
ii. Explain the various characteristics of agricultural credit
iii. List and explain the classification of agricultural credit

7.0 REFERENCES/FURTHER READING

Adegeye, A.J. & Dittoh, J.S. (1985). *Essentials of Agricultural Economics*. Ibadan: Impact Publishers Nig. Ltd.

Panda, S.C. (2011). *Farm Management and Agricultural Marketing*. New Delhi, India: Kalyami Publishers.

Subba, Reddy, S., Roghu, Ram, P.,(1990). *Agricultural Finance and Management.* New-Delhi, India PVt. Ltd.

Subba, Reddy, .S., Roghu, Ram, P., Sastry, Neelakanta, T.V. & Bhavani. D.I. (2009). *Agricultural Economics*. New-Delhi, Oxford and IBH Publishing Co. PVT. LTD.

UNIT 4 CRITERIA AND REQUISITES FOR AGRICULTURAL CREDIT, SOURCES OF AGRICULTURAL CREDIT AND COLLATERAL SECURITY FOR LOANS

CONTENTS

1.0 INTRODUCTION

In the last unit, you learnt about meaning of credit, characteristics and classification of Agricultural Credit. This unit deals with criteria and requisites for agricultural credit, Sources of Agricultural Credit and collateral Security for loans.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- highlight criteria for agricultural credit
- state the requisites of good credit system
- identify various sources of agricultural credit.
- explain collateral security and list properties that can be accepted as collateral security by institutional lending agencies.

3.0 MAIN CONTENT

3.1 Criteria for Agricultural Credit

The various criteria of a suitable type of credit to be set down are:

i. to be granted for a sufficiently long period, commensurate with the length of the operation.

ii. to be granted at a low rate of interest.

iii. to be adequately secured, in order, more particularly to avoid any abuse of credit facilities, but the security should not necessarily be material, rather it should be in the form of personal credit secured mainly by the borrower’s moral standing and farming ability.

iv. to be placed in the hands of institutions, the directors or managers of which have received special training and have actual banking experience.

v. there should be possibility of extension of the term of credit in the event of crop failure.
vi. should be made locally available without delay
vii. the agency engaged for the purpose should be able to find out facts about the borrowers readily.

3.2 Requisites for good Credit System

The requisites for good credit system as given at Regional Seminar for Asia on "Agricultural Credit for small Farmers" held in Bangkok, in October, 1974 were:

i. All credit needs (short, medium and long-term) of the farmers should be met.
ii. Credit should be made available as near to his door steps as possible and when needed by all farmers.
iii. It should generate savings and accelerate economic growth at the socially desired rate.
iv. The credit policy should reflect a compromise between the often diverse plan objectives and differing group interest; i.e. the farmer, the credit institution and the government.
v. The government should be encouraged to adopt new technologies without which sufficient capital cannot be generated to repay loans.
vi. Supply and other services too should be made available to him
vii. The lending agency had to ensure that lending machinery is matched by a recovery machinery
viii. An efficient finance system would not confine its areas of operation to a particular system, which may include crop loans, livestock loans, agro-industry loans e.t.c.
ix. The credit agency should be in a position to interlink with marketing agencies to ensure the full recovery of loans.
x. It is necessary that the rate of interest charged from the farmer should be relatively low.

3.3 Sources of Agricultural Credit

The various sources of agricultural credit are:

i. **Government**: Government gives loans to the cultivators for production of crops, land improvement and distress relief etc.
ii. **Relatives**: In most cases, loans are given to farmers free of interest and such is considered as a loan from relatives
iii. **Agricultural Moneylenders**: These are those whose main occupation is agricultural but involved in money lending activity which is of minor importance.
iv. **Professional Moneylenders**: Those who earn substantial part of their income from money lending activity are professional money lenders.

v. **Traders**: These are the individuals who are involved in trading and loans.
vi. **Institutional Credit Agencies**: These include borrowings from cooperatives, commercial banks, and other scheduled banks. Borrowing from these agencies can be short term credit and long-term credit.

3.4 Collateral Security for Loans

It is the property that is pledged to secure a loan. The movable properties of the individuals are offered. Examples are bonds, stocks and shares; warehouse receipts, jewellery, machinery, a life policy, charge on fixed asset, personal security/guarantee- in which case borrower himself stands as the guarantor.

4.0 CONCLUSION

In this unit, we have been able to highlight the criteria for agricultural credit, explain the requisites for agricultural credit and identify various sources of agricultural credit. We have also been able to define security for loans and outline properties that can be accepted as collateral security.

5.0 SUMMARY

In this unit, you have learnt that:

i. Requisites for good credit system include low interest rate; lending machinery is matched by a recovery machinery, meeting all credit needs of the farmers, generate savings to accelerate economic growth, adoption of new technologies, credit agencies to interlink with marketing agencies, supply and other services made available to the farmers, finance system would not confine its areas of operation to a particular system.
ii. The sources of agricultural credit are government, relatives, agricultural money lenders, professional money lenders, traders and institutional credit agencies.
iii. Collateral Security is the property that is pledged to serve as loans- e.g. bonds, shares, machinery, landed property etc.

6.0 TUTOR-MARKED ASSIGNMENT

i. What are the criteria for agricultural credit?
ii. State clearly, the requisites for good credit system.
iii. Outline and explain the various sources of agricultural finance.

7.0 REFERENCES/FURTHER READING

Adegeye, A.J. and J.S Dittoh (1985): Essentials of Agricultural Economics. Ibadan: Impact Publishers Nig. Ltd.

Central Bank of Nigeria. (1981). *Agricultural Credit Guarantee Scheme Fund: Third Annual Report and Statement of Accounts for the Year Ended December, 1980*. Lagos: Central Bank of Nigeria.

Godwin, J.B. & Salley, R. (1973). 'Review of Small Farmer Credit in Ghana.' USAID. *Spring Review of Small Farmer Credit*.

Panda, S.C. (2011). *Farm Management and Agricultural Marketing*. New Delhi, India: Kalyami Publishers.

Subba, Reddy, .S., Roghu, Ram, P.(1990). *Agricultural Finance and Management*. New-Delhi, India: PVt. Ltd.

MODULE 6 FARM RECORDS, ACCOUNTING AND INVENTORY

UNIT 1 MEANING OF FARM RECORDS AND ACCOUNTING, IMPORTANCE AND TYPES OF FARM RECORDS AND ACCOUNTS

CONTENTS

1.0 INTRODUCTION

In the last module, we learnt about meaning and features of agricultural finance, problems of agricultural finance, agricultural credit and its classification. We also learnt about sources, criteria and requisites for agricultural credit and collateral security for loans. This module is devoted to farm records accounting and inventory and unit one deals with the meaning of farm record and account.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- define farm record and account
- give reasons for keeping farm records and accounts
- explain the various types of farm records and account.

3.0 MAIN CONTENT

3.1 Meaning of Farm Records

Farm records are the written records or documents of activities on the farm. Records of farm activities are kept on daily basis. From the daily records, the weekly summaries are prepared and the weekly summary provides information for the monthly and subsequently yearly summaries. All daily activities including performance of crops and livestock, symptoms of diseases observed, farm operations, and other happenings must be recorded promptly and accurately in the farm record book.

3.2 Meaning of Farm Accounts

Farm accounts are the financial records of what the farmer spends or receives on the farm. The systematic way of recording financial business transaction is what is normally referred to as farm accounting.

Farm account is usually designed to show two major financial statements. First is the capital position or net worth of the farm- i.e. balance sheet. Secondly, the income and expenditure- i.e. profit or loss in the farm business.

3.3 The Importance of Keeping Farm Records and Accounts

1. **Calculation of Profit Margin:** Farm records and accounts involve keeping of all the expenses incurred on the farm and the records of all the income in the operations of the farm. If the total income is more than the total expenditure on the farm, the result is profit and if the reverse is the case it results into losses.
2. **Progress Report:** Some of the important records kept on the farm are profit and loss, crop yield and livestock performances. Since the records are kept on yearly basis, the farmers can easily compare the progress made on yearly basis. Through these records, farmers can determine if there is increase in this farm size, livestock population, crop yield, e.t.c. over the years. This will enable him determine the progress he has made over the years.
3. **Easy Access to Credit Facilities:** One of the major problems facing credit institutions in Nigeria is to determine the appropriate credit suitable to each farmer. Proper records of farm account will eliminate this problem as the record will show the level at which the farmer is operating. Granting appropriate credit will also reduce the problem of credit diversion by farmers.
4. **Determination of Appropriate tax:** farmers supposed to pay taxes based on the profit realised on their farms. If records and accounts are not properly kept, government will decide to fix any amount which may lead to either over-tax or under-tax payment.
5. **Determination of Insurance Premium:** With the establishment of National Agricultural Insurance Company, it is now compulsory for any

farmer taking agricultural loan to produce insurance cover for his farm business. Just like the taxation of farm business, insurance premium paid by farmer is also based on the volume of farm business. The amount of crop of livestock insurance to be paid is determined from the farm records and accounts kept by farmers. When records are not available, the insurance company can decide to fix any amount they so desired.

6. **Guide in Decision Making:** A good farm records and accounts will guide farmers in decision making process. A comprehensive record of farm activities will bring out clearly the area of weaknesses and strong points in farm management. A good farm records and accounts will show which enterprises is making progress and which one to be discarded. On the basis of resources allocation, farm records and account can reveal the level of fertilizer used on the farm or the rate of feed consumption by the livestock. This can lead to a decision on whether to reduce or increase the level of resources used on the farm.
7. **For Planning and Budgeting Purposes:** Farm records and account kept for many years will provide both the farmers and government information for planning purposes. Based on the past records and accounts both farmers and government can prepare accurate budget estimate for the next farming season. Past records and accounts will show clearly the amount spent on the various farm operations and the resources required from these records, the expected revenue can be projected for planning purposes.

3.4 Type of Farm Records and Accounts

There are many ways of presenting farm records and accounts. The method adopted depends on individuals and the type of business organisation involved. Generally, there are four different groups of farm records and accounts that are used by most farmers. These include:

- Production records
- Income and expenditure records
- Inventory records, and
- Miscellaneous records

a) **Production Records:** Production records are the records of physical activities on the farm. In crop production, all farm operations involving inputs and outputs from land clearing to the harvesting stage are recorded under the production records. Similarly in livestock production, all operations from the introduction of the new breed up to maturity are recorded here. Production records may be presented under different classes depending on the type of farm enterprise and the choice of farm manager. In crop production we may have separate records for hectares of land under various crops; chemical used in various crops, family and hired labour used, crop yields etc., for livestock production, we identify such classes as quantities of feeds consumed by the various types of livestock, record of medical treatment, the weight gains of the various livestock, number of eggs collected, amounts of milk produced per animal, number of piglets furrowed per sow, etc., all these records fall into production record.

b) **Income and Expenditure Records:** All the money values of input under production records are recorded as expenditure records. Similarly, all the money values of output under production records are recorded as income records. Therefore, records, all purchases and wages paid on labour are recorded as expenditure while all the sales made on the farm are recorded under income. Income and expenditure provides the summary of financial transactions under the production record. Income and expenditure could be prepared for each enterprise on the farm while the income and expenditure for the entire farm is prepared from the Individual enterprises.

c) **Inventory Records:** Inventory records involved taking stock of all assets and liabilities on the farm at a specific date. In stock taking, all the assets and liabilities are physically counted and value so that the financial position or net worth of the farm can be seen at that particular point. In additions, the record will reveal all the unused inputs and unsold farm outputs at the point in inventory records involve two major steps. The first step involves the physical count of the assets and liabilities. Physical counts involve mere listing the assets and liabilities of the farm. Examples of such list include the total size of the farm, the crops grown and the number of stands or hectare devoted to each crop, buildings and the use of such buildings, fences and dams. Other assets that could be listed include: Machinery and equipment such as tractors and their implements, cutlasses, hoes etc., supplies such as ropes, chains, fertilizers, seeds, medicines etc., are also listed. A physical count of livestock should include the type and class of livestock, the age, sex as well as the number and weight of the animals.

   The second step in inventory record is the valuation of the assets and liabilities already listed. We have already discussed the various methods of valuing farm assets in Unit 3 of Module 2. Such method include-valuation at cost or using the actual cost price, valuation at cost or market price which ever is lower, valuation at current selling price and valuation by reproductive value or replacement cost.

d) **Miscellaneous Records:** Any important record which cannot be placed under production or income and expenditure and inventory records are put together under miscellaneous records. Some people referred to it as special records while others call it supplementary records. Some of the important records under this category include certificate of occupancy of the land, the soil map, farm layout as well as other legal documents pertaining to the farm like the business registration, tax payment, insurance etc.; these documents are necessary for the smooth running of the farm business. At time, government and other relevant agencies demand for some of these documents before any further improvement or assistance can be allowed on the farm.

SELF-ASSESSMENT EXERCISE

1. List twenty (20) inventory assets that can be found in farm business.
2. Name a farm enterprise and prepare production record for the enterprise.

4.0 CONCLUSION

In this unit, you have learnt about the meaning of farm records and accounts, the importance of keeping farm records and accounts and the types of records and accounts kept in farm business. The conclusion that can be drawn from this unit is that no farm business can progress without proper records and accounts of its operations.

5.0 SUMMARY

In this unit, you have learnt about the following:

i. Farm records are the records of physical activities on the farm
ii. Farm accounts are the records of financial transactions on the farm.
iii. Some of the advantages of keeping farm records and accounts include:
   - for the calculation of profit margin
   - to produce progress report
   - easy access to credit facilities
   - determination of appropriate tax
   - determination of appropriate insurance premium
   - guide in decision making and
   - for planning and budgeting purposes.

6.0 TUTOR-MARKED ASSIGNMENT

1a. Explain the term farm records and accounts.
b. List and discuss the importance of farm records and accounts in farm enterprises.
2. Enumerate the classes of farm records and accounts and write explanatory note on any two of them.

7.0 REFERENCES/FURTHER READING

Abbot, J.C., & Makeham, J.P. (1979). *Agricultural Economics and Marketing in the Tropics*. Longman, London.

Adegeye, A.J. & Dittoh, J.S. (1985). *Essentials of Agricultural Economics.* Ibadan: Impact Publishers Nig. Ltd.

Ayinde A.T.A. Abdul-Azeez & Adebayo, R.O. (1999). *Agricultural Economics and Statistics.* Ado-Ekiti: Adebayo Printing Nig. Ltd.

Castle, N.E. & Becker, H.M.(1987). *Farm Business Management.* New York. Macmillan.

Gittinger, P. (1981). *Economic Analysis of Agricultural Projects*. Baltimore. John Hopkins University Press.

Hopkins .O. & Heady, E.O. (1982). *Farm Records and Accounting.* Iowa State University Press.

Ibitoye, S.J. (2008). *Principles of Farm Management*. Lagos: National Open University of Nigeria.

Jeffery A.G. (1963). 'Record and Accounts for farm Management.' UNESCO Bulleting No. 176.

Upton, M, & Q.BO. Anthonio (1981). *Farming as a Business*. London. Oxford University Press.

Sturrock F. (1982). *Farm Accounting and Management.* London. Pitman and Sons Ltd.

UNIT 2 FARM RECORD DESIGNS

CONTENTS

1.0 INTRODUCTION

In unit one of this module we discussed the concepts of farm record and account. Under the concept, we explained the meaning of farm record and account. We further listed and explained the importance of keeping farm record and account. Finally, the four major types of farm records and accounts were explained in this unit, efforts will be made to design farm records and accounts for crops and livestock enterprises. We will also identify the farm record and accounts for crops and livestock enterprises. We will also identify the principles behind farm records and accounts.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- design farm records and accounts for a named crop enterprise
- design farm records and accounts for a poultry farmer
- design farm records and accounts for other enterprise
- state the basic principles of farm records and accounts.

3.0 MAIN CONTENT

3.1 Sample of Farm Record and Account for Crop Enterprise

Introduction

The design of farm records and accounts combines the records of production and income and expenditure on the farm. The nature of the design will depend on a number of factors, which among others include:

- the type of crop enterprise
- type of livestock enterprise
- interest of the farmers or farm managers.

Generally, any design adopted should be simple, precise and comprehensive enough to accommodate all necessary information about the enterprise. A typical farm record and account is normally presented in columns as shown below:

Column i	Column ii	Column iii	Column iv	Column v

Some of the essential records in a crop enterprise include:

- ❖ Cropping record
- ❖ Machinery and equipment used record
- ❖ Labour record
- ❖ Chemical input used record
- ❖ Crop harvest record
- ❖ Crop sales record

3.1.1 Cropping Record

Some of the essential columns in cropping record include:

- ❖ Column i Types of crop
- ❖ Column ii Date of planting
- ❖ Column iii Quantity of seed planted
- ❖ Column iv Crop yield (bags or key etc.)

- ❖ Column v Remarks (if there is any)

3.1.2 Machinery and Equipment Use Record

The essential columns that should be present in this type of record include:

- ❖ Column i Date of operation
- ❖ Column ii Type of Operation
- ❖ Column iii Type of Machinery and equipment used
- ❖ Column iv Total area covered (hectares)
- ❖ Column v Cost of service (Naira)

3.1.3 Labour Record

Labour used record should be designed to have the following columns:

- ❖ Column i Date of operation
- ❖ Column ii Types of operation
- ❖ Column iii Amount of hired labour used (No.)
- ❖ Column iv Amount of family labour used (No.)
- ❖ Column v Total amount of labour used
- ❖ Column vi Wage rate (Naira)
- ❖ Column vii Total cost of hired labour (Naira)
- ❖ Column viii Total value of family labour (Naira)

3.1.4 Chemical Input Use Record

The essential columns that must be present in this type of record include:

- ❖ Column i Date of application
- ❖ Column ii Types of fertilizer or agro-chemicals
- ❖ Column iii Quantity applied
- ❖ Column iv Cost per unit (Naira)
- ❖ Column v Total cost (Naira)

3.1.5 Harvest Record

- ❖ Column Ii Date of harvest
- ❖ Column ii Quantity harvested
- ❖ Column iii Quantity of crop after drying and threshing of milling

3.1.6 Sales Record

A typical sales record should have the following columns:

- ❖ Column i Date
- ❖ Column ii Quantity sold (kg)
- ❖ Column iii Price per unit (Naira)
- ❖ Column iv Total Sales (Naira)
- ❖ Column v Quantity given out as gift (kg)
- ❖ Column vi Value of the gift (Naira)

3.2 Samples of Farm Record and Account for Poultry Enterprise

Some of the essential records in a poultry enterprise include the followings:

- ❖ Feed record
- ❖ Other cost record
- ❖ Flock number record
- ❖ Egg production record
- ❖ Egg sales record
- ❖ Chicken sales record

3.2.1 Poultry Feed Record

Some of the essential items under poultry feed records include the followings:

- ❖ Column i Date of purchase
- ❖ Column ii Description of feed
- ❖ Column iii Weight in kg
- ❖ Column iv Price per unit
- ❖ Column v Total value (Naira)

3.2.2 Other Costs Records

All other costs apart from feed which carries the major aspect of poultry running cost can be grouped one item. The essential columns under this record include the following:

- ❖ Column i Date
- ❖ Column ii Description of items
- ❖ Column iii Quantity of items
- ❖ Column iv Cost of items

3.2.3 Labour Record

Labour record may have a separate heading or if the farmer desires it can be presented along other costs. If separated, it should have the following columns:

- ❖ Column i Date of operation
- ❖ Column ii Type of operation
- ❖ Column iii Amount of labour used (Hired/family)
- ❖ Column iv Total amount of labour used
- ❖ Column v Wage rate (Naira)
- ❖ Column Vi Total cost of hired labour (Naira)

3.2.4 Flock Number Record

The essential columns under flock number record include the following:

- ❖ Column i Date
- ❖ Column ii No. of birds at the beginning
- ❖ Column iii No. of dead birds
- ❖ Column iv No. of birds removed

- ❖ Column v No. of birds remaining
- ❖ Column Vi No. of birds added
- ❖ Column vii No. of birds in hand

3.2.5 Egg Production Record
Egg production records are essential if only layers are involved. Some of the important columns under this record include the following:
- ❖ Column i Date of collection
- ❖ Column ii No. of eggs collected
- ❖ Column iii No. of bad eggs
- ❖ Column iv Total number of good eggs

3.2.6 Egg Sales Record
Sales of eggs are an important record that must be kept in poultry enterprise that involves layer's production. The essential columns that must be present include the following:
- ❖ Column i Date
- ❖ Column ii No. of eggs sold (crates or dozens)
- ❖ Column iii Total value of eggs sold (Naira)

The eggs may be sorted into small and large sizes in which case there will be separate columns for them under the number sold and the value of eggs sold.

3.2.7 Chicken Sales Record
Record of chicken either broiler; cockerel or spent layers must be properly kept. The essential columns under this record include the followings:
- ❖ Column i Date
- ❖ Column ii Number of birds sold
- ❖ Column iii Total value of birds sold (Naira)

3.3 Sample of Farm Records and Accounts for other Livestock (Ruminant) Enterprise
The type of farm records and accounts kept under ruminant enterprise will depend on the type of the animal produced-sheep and goat, beef cattle, dairy cattle, e.t.c. Generally, the following records and accounts can be identified in a comprehensive livestock enterprise embracing meat and milk production:
- ❖ Feed record
- ❖ Labour record
- ❖ Other costs record
- ❖ Livestock number record
- ❖ Meat (beef) sales record
- ❖ Milk production record
- ❖ Milk sales record.

3.3.1 Feed Record

The important columns under feed record include:

- ❖ Column i Date
- ❖ Column ii Description of feed
- ❖ Column iii Weight of feed (kg)
- ❖ Column iv Price per unit
- ❖ Column v Total value (Naira)

3.3.2 Labour Record

Labour record under ruminant production is similar to the labour records under poultry production. The essential columns under such records include:

- ❖ Column i Date
- ❖ Column ii Type of operation
- ❖ Column iii Amount of labour used (hired/family)
- ❖ Column iv Total amount of labour used (Manday)
- ❖ Column v Total cost of hired labour (Naira)

3.3.3 Other Costs Record

This is also similar to other costs under poultry production. Such records include:

- ❖ Column i Date
- ❖ Column ii Description of items
- ❖ Column iii Quantity of items
- ❖ Column iv Cost of items

3.3.4 Livestock Number Record (e.g. Cattle)

The essential columns include:

- ❖ Column i Date
- ❖ Column ii No. of cattle at the beginning
- ❖ Column iii No. of dead cattle
- ❖ Column iv No. of cattle removed
- ❖ Column v No. of cattle remaining
- ❖ Column Vi No. of cattle added/born
- ❖ Column vii No. of cattle at hand

3.3.5 Meat (Beef) Sales Record

The design of this record depends on whether the cattle is sold live or slaughtered. The suggested formats are presented below:

- ❖ Column i Date
- ❖ Column ii Number of cattle sold or
- ❖ Column iii Quantity of beef sold (kg)
- ❖ Column iv Total value of cattle/ beef sold (Naira)

3.3.6 Milk Production

If the ruminant enterprise involved dairy production, milk production record is very essential. Some of the important columns under this record include:

- Column i   Date
- Column ii   Number of cattle milked
- Column iii   total quantity of milk (litres)

3.3.7 Milk Sales Record

The design of milk sales record should have the following columns:

- Column i   Date
- Column ii   Quantity of milk sold (bottle/it.
- Column iii   Total value of milk sold (Naira)

3.4 Principles of Farm Records and Accounts

The general principles guiding the keeping of farm records and accounts include the following:

i. Farm records and accounts must be comprehensive, neat and accurate: all records and accounts must be comprehensive enough for people to understand. The record must be neatly kept and must also be accurate. Since account involves the use of figures, it must be properly recorded.
ii. Another important principle of farm records and account is that the record of all transactions must be kept immediately. Due to loss of memory if records of transactions are not kept immediately, there is the tendency for the farmer to forget some of the transactions and this will make the record for the day incomplete. Omission of an important transaction may affect some major decisions on the farm.
iii. Another important principle of farm records and accounts is that all income and expenditure must be recorded in cash account. This must be recorded on daily bases to give on the spot information about the progress of the farm business.

SELF-ASSESSMENT EXERCISE

List and explain four factors that will guide a farmer in the design of a farm record and account for a particular farm enterprise.

4.0 CONCLUSION

In this unit, you have learnt about the various designs of farm records and accounts that can be used in farm enterprise. Samples of farm records and accounts were designed for crop farm, poultry farm and cattle production. It is generally agreed that no one acceptable method can be used in presenting farm records and accounts. The design or method adopted depends on a number of factors. The general principles guiding the use of farm records and accounts were also highlighted.

5.0 SUMMARY

In this unit, you have learnt the following:

- The design of farm records and accounts depends on a number of factors among which include: the type and size of crop or/and livestock enterprise, the choice of farmer or farm manager and the complexity of the farm.
- The various items under a typical crop farm record and account include: crop population, machinery and equipment, labour, chemical used, harvest and sales.
- In a poultry production enterprise the essential farm record and account identified include: feed, labour, other costs, flock number, chicken sales, egg production and egg sales.
- For other livestock like cattle, important items in a typical farm records and accounts include: Feed, labour, other costs, livestock population, meat sales, milk production and milk sales.

6.0 TUTOR-MARKED ASSIGNMENT

Design farm records and accounts for:

a. a named crop
b. a named livestock

7.0 REFERENCES/FURTHER READING

Abbot, J.C., & Makeham, J.P. (1979). *Agricultural Economics and Marketing in the Tropics*. Longman, London.

Adegeye, A.J. & Dittoh, J.S. (1985). *Essentials of Agricultural Economics*. Ibadan: Impact Publishers Nig. Ltd.

Ayinde A.T.A. Abdul-Azeez & Adebayo, R.O. (1999). *Agricultural Economics and Statistics*. Ado-Ekiti: Adebayo Printing Nig. Ltd.

Castle, N.E. & Becker, H.M.(1987). *Farm Business Management.* New York. Macmillan.

Gittinger, P. (1981). *Economic Analysis of Agricultural Projects*. Baltimore. John Hopkins University Press.

Hopkins .O. & Heady, E.O. (1982). *Farm Records and Accounting.* Iowa State University Press.

Ibitoye, S.J. (2008). *Principles of Farm Management*. Lagos: National Open University of Nigeria.

Jeffery A.G. (1963). 'Record and Accounts for farm Management.' UNESCO Bulleting No. 176.

Upton, M, & Q.BO. Anthonio (1981). *Farming as a Business*. London. Oxford University Press.

Sturrock F. (1982). *Farm Accounting and Management.* London. Pitman and Sons Ltd.

UNIT 3 BENEFIT COST ANALYSIS OF AGRICULTURAL PROJECT

CONTENTS

1.0 INTRODUCTION

In Unit 2 of this module, we discussed farm records and accounts designs. Sample of three farm enterprises were taken. We designed farm record and accounts for a crop farm, poultry enterprises and cattle production. In Unit 2, we also explained the basic principles guiding the keeping of farm records and accounts. This unit of the module is devoted to discussing benefit –cost analysis of agricultural enterprises.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- identify benefit in agricultural projects
- identify costs in any farm enterprise
- define benefits in agricultural project
- define costs in agricultural project
- classify the various items and operations in agricultural activities into benefits and cost.

3.0 MAIN CONTENT

3.1 Meaning of Costs and Benefits

Benefits mean any increase in production or any gain in goods, materials and services which emanate from the project.
Cost means the expenditure or consumption of goods, materials and services for the construction and maintenance of the project.

Benefit-cost analysis is the term used to refer to the decision-making process for the production of public goods (agricultural goods). In this type of analysis the benefits and costs of agricultural project are calculated and compared. The project is economically acceptable only if its benefits are greater than or equal to its costs.

If the benefits associated with any agricultural good are greater than its costs, then it is also true that the ratio of the benefits of the project to its costs is greater than one. The ratio of the benefits to the costs of a project is called the benefit-cost ratio. Any agricultural project is acceptable as long as its benefit-cost ratio is greater than one.

3.2 Classification of Costs and Benefits

Benefits and costs can be divided into two types:

(a) **Intangible**

These are benefits or costs to which no monetary value can be assigned; e.g benefit from prevention of loss of lives as a result of flood control; reduction in yellow fever as a result of constructing a canal, e.t.c. In the case of intangibles these should be expressed in

(b) **Tangible**

Tangible benefits and costs are those which can be expressed in monetary terms. Tangible benefits and costs can be further subdivided into primary (direct) and secondary (indirect).

i. **Primary (Direct) Benefits and Costs**

Primary benefits represent the value of the immediate goods and services which emanate from the project e.g. in irrigation, it is the increase in the annual crop production.

Primary costs on the other hand, represent the value of the materials and services used for undertaking the project. Primary costs sometimes can be further subdivided into project costs and associated costs.

Project costs represent the value of goods and services used for the establishment, maintenance and operation of the project.

Associated costs are those incurred over and above the project costs in order to make the expected benefits accessible to the beneficiaries.

ii. **Secondary (Indirect) Benefits and Costs**

Secondary benefits represent the added value over the above the immediate products and services which the project induces e.g. in irrigation project, they are the increases in the earnings of processing, manufacturing and business undertakings resulting from the increase in agricultural production.

Secondary or indirect costs are those incurred in securing the secondary benefits e.g. in irrigation project those costs incurred by the processing, manufacturing, transporting and marketing agencies in handling the increased agricultural output.

In project analysis, the numerical calculation and ranking is usually based on the primary costs and benefits only. Estimation of secondary costs and benefits are difficult and tend to be inaccurate. Therefore, these and other intangible benefits are usually noted but not empirically estimated.

3.3 Identification of Costs in Agricultural Projects Cost means the expenditure or consumption of goods, materials and services for the construction and maintenance of the project. In almost all project analysis, costs are easier to identify than benefits.

I. **Goods and Services:** Costs of goods and services are easier to identify e.g. concrete for irrigation wells, bulldozers for land clearing, e.t.c.
II. **Labour:** The labour component of agricultural projects is also easy to identify. The major problem is the valuation especially in case of unskilled and family labour where shadow pricing may be appropriate.
III. **Cost of Land:** Proper value to place on land in an agricultural project is often a complicated subject because land markets are not perfect. Three alternatives are used to value the land in the economic analysis of projects- value the land at its purchase price or value the land at its rental cost or value the land at an estimate of the net value of production forgone or opportunity cost of return each year.
IV. **Taxes:** Taxes are a transfer payment which requires special treatment in project analysis. These are payments from the project to whole society.
V. **Subsidies:** Subsidies are transfer payment to the project or to t he farmers in a project from the rest of the society. A subsidy on fertilizer reduces its cost to the farmer and thereby increases his income. In economic analysis, if subsidy operates to reduce input costs, then we must add the subsidy to the market price of the commodity.

3.4 Identification of Benefits in Agricultural Project

Benefits in agricultural projects can arise either from an increased value of output or from reduced costs. The specific forms in which benefits appear are not always obvious and valuation may be difficult.

A. **Increased Value of Output:**
   The most common of benefits in agricultural projects is an increased in output. This can arise in a number of ways including:
   i. ***Greater Physical Production:*** Benefits can arise from increased physical production of a crop or livestock product provided the market and price relationship are such that greater production does not bring a fall in prices.

ii. ***Quality Improvement:*** A benefit from an agricultural project may take the form of a quality improvement. Most often in agricultural projects, both increased output and quality improvements are expected but it may not always be the case.
iii. ***Changes in Form:*** Changes can occur in form of grading and processing. This situation generally arises from projects for agricultural industries. Farmers sell paddy to millers who, in turn sell polished rice. The benefits arise from the change in form. Other examples are canning of fruits, grading of fruits, eggs. etc.
iv. ***Changes in Location and Time of Sale:*** This type of benefits can arise from projects improving marketing and storage facilities.

B. **Cost Reduction**

In addition to increased value of output, benefits in agricultural projects may be from a reduction in costs, examples are as follows:

i. ***Gains from Farm Mechanization:*** Reduction in costs of production, through mechanization may increase benefits; even total production may not increase provided that any labour displaced can be productively employed elsewhere.
ii. ***Reduced Transportation Cost:*** Better transportation may reduce the cost of moving produce from the farm to the consumers. Such benefits are very common in agricultural marketing projects.
iii. ***Losses avoided:*** One kind of cost reduction benefit may arise because of a loss avoided. Examples of such benefits are storage projects, irrigation system, maintenance and soil conservation through prevention of water losses and soil erosion.
iv. ***Other kinds of direct Benefit:*** Such benefits may come as a result of increased saving capacity of individuals, improve education and training, better health working conditions etc.

3.5 Analysis of Costs and Benefits

A. Costs

1. Cost of Crop Production

Some of the costs items under crop production include the followings:

a. Cost of fertilizer, pesticides, seeds etc., with any subsidies removed to reflect the true economic price.
b. Cost of irrigation water other than supplies by project facilities e.g. canal water, private tubewell water etc.
c. Farm machinery should be evaluated at rental cost.
d. Animal Power may be treated as a rental cost
e. Electricity
f. Labour Cost
g. Farm Improvement
h. Land should be valued at purchase price

i. Infrastructures
j. Credit.

2. **Costs of Livestock Production**

Animal husbandry is an important part of many farm budgets in Nigeria. Where farm animals exceed a pair of bullocks for draft power, the cost of animal husbandry sector is to be developed.

(a) Land for fields to grow fodder and for pen building
(b) Labour costs for maintenance and production of livestock
(c) Veterinary services and supplies
(d) Concentrates, minerals and salts.

3. Project Costs

It is important that all project costs are identified and accurately accounted for.

(a) **Capital Costs**

All capital costs of the project works are to be listed by items, quantities and unit cost. Some of the capital costs include:

- Replacement Costs
- Electrification Costs
- Transfer payments such as interest on the investment, custom duties, sales tax etc.
- Subsidies
- Contingencies = 15 to 20 percent of capital cost
- Land acquisition which is the actual cost of the land

(b) **Operational and Maintenance Costs.**

These items generally include the following:

- Personnel costs should include all management and labour costs
- Equipment and supplies to run the project
- The cost of energy
- Gas, oil, diesel etc., to run the vehicle and machinery

B. Benefits

i. Primary and Tangible Benefits

- ***Agricultural Production:*** Agricultural production should be estimated for each of the two conditions, i.e. without project and with project. An analysis period of 25 years is ample for determining the economic worth of an agricultural project.
- ***Gross value of Production:*** Gross value of Production (GVP) should be determined on the basis of farm-gate prices multiplied by total production year-by-year for the project analysis period.
- ***Net Value of Production:*** The Net Value of Production (NVP) is the gross Value of production less the costs of production other than the costs of the project itself.

ii. **Secondary and Intangible Benefits**

- **Aside from** the additional employment created for farm production there will be many secondary benefits and intangible benefits and that should be enumerated even though they are not quantified and their values are not included in the analysis.

SELF-ASSESSMENT EXERCISE

1. List five examples each of tangible and intangible benefits in agricultural project.
2. List five examples each of tangible and intangible costs in agricultural project.

4.0 CONCLUSION

In this unit, you have learnt about the benefit-cost analysis of agricultural project. In our discussion, we have been able to differentiate costs from benefits in agricultural project. We further classified costs and benefits into tangible and intangible. Tangible costs and benefits were further subdivided into primary or direct and secondary or indirect. We equally identified all the various costs and benefits of agricultural project. Those costs were analysed under crop, livestock and projects. While benefits were analysed under agricultural production, gross value of production and net value of production.

5.0 SUMMARY

In this unit, you have learnt that the following:

- Benefits mean any gain in goods, materials and services
- Costs means expenditure of goods, materials and services
- Intangible benefits or costs carries no monetary value
- Tangible benefits or costs can be expressed in monetary terms
- Primary benefits are the values of goods and services which emanate from the project
- The added value over and above the values of goods and services which emanate from the project are called secondary benefits.
- Values of the materials and services used for undertaking the project are called primary costs.
- Secondary costs are costs incurred when securing secondary benefits.
- Some of the costs identified in agricultural projects include: labour, goods and services, land, taxes, subsidies, etc.
- Some of the benefits identified in agricultural projects include: increased value of output, greater physical production, quality improvement, changes in form, reduction in costs, etc.

6.0 TUTOR-MARKED ASSIGNMENT

1a. Define:
   i. Costs and
   ii. Benefit of Agricultural Project.

b. Discuss the two major classes of costs and benefits of agricultural projects.

2. Identify and discuss any four (4) major costs and four (4) major benefits in agricultural projects.

7.0 REFERENCES/FURTHER READING

Abbot, J.C., & Makeham, J.P. (1979). *Agricultural Economics and Marketing in the Tropics*. Longman, London.

Adegeye, A.J. & Dittoh, J.S. (1985). *Essentials of Agricultural Economics.* Ibadan: Impact Publishers Nig. Ltd.

Ayinde A.T.A. Abdul-Azeez & Adebayo, R.O. (1999). *Agricultural Economics and Statistics.* Ado-Ekiti: Adebayo Printing Nig. Ltd.

Castle, N.E. & Becker, H.M.(1987). *Farm Business Management.* New York. Macmillan.

Gittinger, P. (1981). *Economic Analysis of Agricultural Projects*. Baltimore. John Hopkins University Press.

Hopkins .O. & Heady, E.O. (1982). *Farm Records and Accounting.* Iowa State University Press.

Ibitoye, S.J. (2008). *Principles of Farm Management*. Lagos: National Open University of Nigeria.

Jeffery A.G. (1963). 'Record and Accounts for farm Management.' UNESCO Bulleting No. 176.

Upton, M, & Q.BO. Anthonio (1981). *Farming as a Business.* London. Oxford University Press.

Sturrock F. (1982). *Farm Accounting and Management.* London. Pitman and Sons Ltd.

UNIT 4 PROBLEMS AND DIFFICULTIES IN FARM ACCOUNTING

CONTENTS

1.0 INTRODUCTION

In unit 3, we discussed the benefit-cost analysis of agricultural projects. We were able to explain the meaning of costs and benefits. Furthermore, we classified costs and benefits into primary and secondary, and identified the various costs and benefits of agricultural projects. This unit deals with the concepts of accounting and difficulties in farm accounting.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- explain the concept of accounting.
- discuss the problems and difficulties of farm accounting.

3.0 MAIN CONTENT

3.1 Concept of Accounting

Accounting is the art of recording, classifying and summarising the business transactions. Recording refers to writing in journals, classifying means writing in ledgers and summarising relates to preparation of trading accounts, profit and loss account and balance sheet (Panda, 2011). Thus, simply put, accounting is the activity of keeping detailed records of the amounts of money a business or person receives and spends.

3.2 Difficulties in Farm Accounting

The specific and various difficulties in maintaining accounts are:

i. **Subsistence Nature of Farming:** in Nigeria, farming as a business, relatively speaking is a small size operation most of the farmers cannot engage separately trained accountants to help them in the farm accounting and subsistence nature of farming does not produce incentive for keeping the records.
ii. **Farm is a Laborious Work:** Farming requires a lot of physical labour in addition to mental work of management. In the daily routine, the farmer

usually gests exhausted in the evening time, and does not feel like keeping and updating records and accounts.

iii. **Illiteracy and Lack of Business Awareness:** The very low level of literacy among the farmers is a hindrance in developing the required level of business awareness on the part of the cultivators and they do not realise the need for records and accounts.

iv. **Complicated Nature of Agricultural Business:** It is a biological activity and is always subject to weather and other natural uncertainties. It therefore requires an accounting system which can handle various complexities involved I n the business of farming. Such complicated accounts are difficult to maintain.

v. **Inadequate Extension Service:** In this case, sufficient number of trained specialists in farm management is not available to help farmers maintain accounts of their business.

vi. **Non-Availability or Lack of Suitable Farm Record Books:** Lack of standardized, easy to understand and maintain account books or proforma stands in the way of willingness of the farmers to keep records. To this end, standard farm record books should be developed and should be simple and easy to understand.

vii. **Fear of Taxation:** Farmers are afraid of taxes. They fear that if they maintain records and accounts and their incomes show up high, some sort of tax may be levied on them.

4.0 CONCLUSION

In this unit, you have learnt about the concept of accounting, problems and difficulties in farm accounting. In the country, most of the farmers have no interest for maintaining farm accounts due probably to lack of education, business orientation and time required to do the job.

5.0 SUMMARY

In this unit, you have learnt that:

i. accounting is the art of recording, classifying and summarising the business transactions.

ii. some of the specific difficulties in maintaining accounts are: subsistence nature of farming, illiteracy and lack of business awareness, farming as a laborious work, complicated nature of agricultural business, inadequate extension service, lack of suitable farm record books and fear of taxation.

6.0 TUTOR-MARKED ASSIGNMENT

1. Explain the concept of accounting.
2. List and explain the problems and difficulties in farm accounting.

7.0 REFERENCES/FURTHER READING

Abbot, J.C., & Makeham, J.P. (1979). *Agricultural Economics and Marketing in the Tropics*. Longman, London.

Adegeye, A.J. & Dittoh, J.S. (1985). *Essentials of Agricultural Economics.* Ibadan: Impact Publishers Nig. Ltd.

Hopkins .O. & Heady, E.O. (1982). *Farm Records and Accounting.* Iowa State University Press.

Panda, S.C. (2011). *Farm Management and Agricultural Marketing*. New-Delhi: Kalyami Publishers.

UNIT 5 FARM INVENTORY AND PREPARATION OF FARM INVENTORY

CONTENTS

1.0 INTRODUCTION

In the last unit of this module, we explained the concept of accounting and discussed the problems and difficulties in farm accounting. This unit deals with the concept of inventory and farm inventory. We will also highlight the objectives of inventory and procedure for preparing an inventory. Finally, you will be exposed to methods of valuing the inventory.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- define the concept of inventory and farm inventory
- state the object of inventory
- highlight the procedure for preparing an inventory
- list and explain methods for valuing the inventory.

3.0 MAIN CONTENT

3.1 Concept of Inventory and Farm Inventory

Inventory is the detailed list of all the assets and liabilities with their values prepared at the end of the agricultural year (Subba, Reddy *et al.*: 2009).

Farm inventory is the list of all the physical property of a business along with their values at a specific point of time. Inventory for an agricultural business is taken at two points of time in a year- i.e., at the beginning of the agricultural year and at the end of the year. It constitutes the cash assets, depreciable assets and non-depreciable assets. It is noteworthy that farm inventory forms the basis for the preparation on income statement, balance sheet, measures of income e.t.c (Panda, 2011).

3.2 Object of Inventory

i. To measure the progress during the year
ii. Actual value is determined as unsold stock is accounted for
iii. True value of assets is known by allowing depreciation
iv. Shows distribution of capital among different enterprises and types of articles
v. Experience helps in fixing depreciation and interest on different items.

3.3 Procedure for Preparing an Inventory

i. Maintaining an inventory book
ii. Grouping of assets. These include land, buildings, livestock, implements, seeds, manures, catlefeed, credit to be realized, growing crops, unused cultivation, unspent utility/residual value, cash in hand, cheques, bill etc.
iii. Listing and valuation of the assets by allowing depreciation. Market value if it is lower than book value and there is definite trend towards reduction.
iv. Listing and valuation of liabilities. Loans or debts payable, wages not paid, bill not paid.

3.4 Methods of Valuation

The following are the common methods of valuation.

i. **Net selling price:** From the market price, selling costs are deduced to arrive at the current value of the asset. For example, all farm products for sale and livestock for sale.
ii. **Cost less depreciation:** This method is applicable in the case of working assets. The assets depreciate with every passing year, the depreciation amount is estimated and deducted from the purchase price, e.g. Machinery, buildings constructed recently, carts dairy cattle.
iii. **Market price method:** it is a common method fro valuing purchased farm supplies such as seeds, fertilizer, pesticides, fuel, feeds, veterinary medicines.
iv. **Cost method:** This method is used to estimate current value of the farm produced inputs like seeds. Standing crop is also valued through this method. In this case, expenses incurred in raising the crop till the date on which inventory is taken are recorded.
v. **Replacement cost less depreciation:** This method is confined to estimate the value of very old buildings. Replacement cost represents the cost of constructing the same type of building with the present technology at present or current prices. After arriving at the replacement cost, depreciation is deducted in order to arrive at the current value of the building.
vi. **Income capitalisation:** Using these methods, asset which yields income over an infinite period of time is evaluated, e.g land. The formula for this is $V = R/r$

Where V= Income capitalized value
R= Net income from land per annum
r= Rate of Interest

4.0 CONCLUSION

In this unit, you have learnt about the meaning of inventory/farm inventory, objectives of inventory and procedure for preparing an inventory. You have learnt the various methods of valuing the inventory. An inventory therefore entails complete count and evaluation of all assets and liabilities on the farm at a specified date. An inventory records of a farm is important since it shows the net worth of the farm, stocks and records the expenses due to depreciation.

5.0 SUMMARY

In this unit, you have learnt that:

i. farm inventory is the list of all the physical property of a business along with their values at a point in time.
ii. the essence of the inventory are to measure progress during the year, determine actual value of unsold stock and assets, distribution of capital among different enterprises and fixing depreciation and interest on different items.
iii. the procedure for preparing an inventory are: maintaining an inventory book, grouping of assets, listing and valuation of assets and liabilities.
iv. Assets can be valued through the methods of net selling price, cost less depreciation, market price, cost, replacement less depreciation and income capitalisation.

6.0 Tutor-Marked Assignment

i. Explain fully, the concept of farm inventory.
ii. Justify the need for farm inventory and explain the procedure for preparing an inventory.
iii. Outline and explain the various methods of valuing the inventory.

7.0 REFERENCES/FURTHER READING

Abbot, J.C., & Makeham, J.P. (1979). *Agricultural Economics and Marketing in the Tropics*. Longman, London.

Adegeye, A.J. & Dittoh, J.S. (1985). *Essentials of Agricultural Economics.* Ibadan: Impact Publishers Nig. Ltd.

Ayinde A.T.A. Abdul-Azeez & Adebayo, R.O. (1999). *Agricultural Economics and Statistics.* Ado-Ekiti: Adebayo Printing Nig. Ltd.

Castle, N.E. & Becker, H.M.(1987). *Farm Business Management.* New York. Macmillan.

Gittinger, P. (1981). *Economic Analysis of Agricultural Projects*. Baltimore. John Hopkins University Press.

Hopkins .O. & Heady, E.O. (1982). *Farm Records and Accounting.* Iowa State University Press.

Ibitoye, S.J. (2008). *Principles of Farm Management*. Lagos: National Open University of Nigeria.

Jeffery A.G. (1963). 'Record and Accounts for farm Management.' UNESCO Bulleting No. 176.

Nelson, A.G. *et al*. (1973). *Agricultural Finance*. Iowa State University Press.

Upton, M, & Q.BO. Anthonio (1981). *Farming as a Business*. London. Oxford University Press.

Sturrock F. (1982). *Farm Accounting and Management.* London. Pitman and Sons Ltd.

Subba, Reddy, .S., Roghu, Ram, P., Sastry, Neelakanta, T.V. & Bhavani, D.I.(2009). *Agricultural Economics*. New-Delhi:Oxford and IBH Publishing Co. PVT. LTD.

UNIT 6 FINANCIAL STATEMENTS

CONTENTS

1.0 INTRODUCTION

In unit 5, we explained the concepts of inventory and farm inventory. We also highlighted the procedure for preparing an inventory and stated the objectives of inventory. In the last part of the unit, we discussed various methods of valuing inventory. This unit deals with financial statements. It covers definition of assets and liabilities, preparation of balance sheet and profit and loss account for commercial farms.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- define assets
- define liabilities
- prepare balance sheet for a commercial farm
- calculate net worth from balance sheet
- prepare profit and loss account for a commercial farm.

3.0 MAIN CONTENT

3.1 Assets and Liabilities

Meaning of Asset

Anything or value possess by the business or any claim to value on possession to others. In agriculture farm assets refers to all materials i.e goods and services owned by the farmer and used in the production process.

Assets could be classified into fixed, working and current assets.

Meaning of Liability

Liabilities in accounting mean any claim which people outside business have against the business. In farm business, liabilities refer to goods and services which the farm owes to others. Liabilities are usually classified into long term liabilities, medium term liabilities and short-term liabilities or current liabilities. The classifications are however, not foolproof as the decision to which class to put a particular asset or liability depend to some extent on the farmer or farm manager. Nevertheless, there are some assets and liabilities that fit neatly into the classes.

3.2 Balance Sheet

The best possible measure of capital position of the farm at any given time is shown by the yearly balance sheet. The balance sheet shows the assets and liabilities of the farm business at a specified point in time usually the last day of financial year.

To illustrate balance sheet or Net worth statement accounts consider the farm business of Ocholi Farm Ltd. for the year ended 31st May, 2013.

Example 1

Balance Sheet of Ocholi Farm as at 31st May 2013

Current Liabilities	N	Current Assets	N
Debt due for payment		500 Cash in hand	
500			
		Stock for sale	
1,400			
		Acct. receivable	1.100
Medium term liabilities		Working assets	
Debts due for payment in about 2 years		12,900 Feed in stock	
500			
		Supplies	200
		Harvested crops	9,200
Long term liabilities		Fixed assets	
Mortgages	5,300	Buildings	13,000
Debts for payments in long term		19,900 Machinery	&
15,00			
		Equip	
		Land with crops	3,000
		Dairy cow and	15,000
		Breeding stock	
Total liabilities	38,600	Total assets	
58,900			
Net worth	20,300		

Net worth = Total assets – Total liabilities
= N58,900 -38,600
= N 20,300

3.3 Net worth and Accounting Ratios

Meaning of Networth

Net worth or Net capital is the amount by which total value of assets exceed the total value of liabilities within a period of time. This implies that net worth value is calculated from the balance sheet account. In farm business, net worth or net capital is used to determine the overall performance of a farm at a given period of time.

Net capital shows how much the business worth if it has to be sold at that point in time. It is thus the best possible measure of the farmer’s financial position and its growth is a direct measure of the growth of the business. It shows at a glance whether or not the farmer is credit worthy. Net worth statement is only very useful when compared to past values. The previous values will show whether the farm business is progressing or not.

Calculation of Net worth from *Example 1*
Total assets = ₦58,600
Total liabilities = ₦38,600
Net worth = Total assets – Total liabilities = ₦58,900-₦38,600 = ₦ 20,300
: Net worth value = N20, 300.00

Accounting Ratios

The accounting ratios that can be obtained from the statement of balance sheet include:
(a) Net Capital ratios (NCR)
(b) Working capital ratio (INCR)
(c) Current capital ratio (CCR)

a) Net worth Ratio (NCR)
The Net capital ratio is a measure of the degree of safety for the entire business. It is the ratio of total assets to total liabilities. The greater the figure above one, the safer the farm business- financially.

$$\text{NCR} = \frac{\text{Total Assets}}{\text{Total Liabilities}}$$

From *Example 1*,

Total assets = ₦58,900
Total liabilities = ₦38,600

$$= \frac{₦58,900}{₦38,600}$$

= 1.53

This figure (1.53) when expressed in ratio is about $1^1/_2$ - which means that assets are about one and a half times the value of liabilities? There is no one acceptable level of financial safety; it is left to individual farmer to determine the safety for his farm business.

b) Working Capital Ratio (WCR)

This is also known as intermediate ratio. Working capital ratio measures the degree of financial safety of the farmer over an intermediate period of time (about 1-3 years).

Mathematically;

$$WCR = \frac{\text{Working Assets + Current Assets}}{\text{Medium Term Liabilities + Current Liabilities}}$$

From Example 1

1. Working assets = ₦9,900
2. Current assets = ₦3,000

   Addition of working assets and current assets ₦9,900 + ₦3,000

   ₦12,900
3. Medium term liabilities = ₦12,900
4.. Current liabilities = ₦500

Add No. 3 + No. 4

N12,900+ N500 = N 13,400

$$WCR = \frac{₦12,900}{₦13,400}$$

= **0.96**

The value (0.96) indicates that the farm is less financially safe in the shorter term than in the long run.

c) Current Capital Ratio (CCR)

Current capital ratio measure the ability of the farm to meet current financial obligations. It measures the degree of solvency of the farm business.

Mathematically,

$$CCR = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

From Example 1

	Current assets	= N3, 000
	Current liabilities	**=N 500**

$$CCR = \frac{N3,000}{N500} = 6$$

The current capital ratio 6.1, means that the farm can meet its current financial obligations six times over. This figure can be compared with previous figures for better judgement about the performance of the farm.

SELF-ASSESSMENT EXERCISE

The Balance sheet statement of Ocholi Farms Ltd. as at 31st December, 2009 is given as follows:

Valuation of livestock and crops	N 10,000
Machinery and equipment	N1, 000
Raw materials	N 500
Debt receivable	N 600
Cash in hand	N2, 000
Debts payable	N1,000
Loans	N500
Bank overdraft	N1,000

a. Use the information above and draw up a balance sheet account
b. From the account prepared, calculate:

i. Net worth or Net capital
ii. Net Capital Ratio (NCR)

Hints

Note that total assets	=	N14,500
Total liabilities	=	N2,500
Net worth	=	N12,000

3.4 Profit and Loss Account

The ultimate goal of any business is to make profit. One of the best ways of assessing how well the business is progressing is by preparing a profit and loss account for the business.

There are three essential components of profit and loss account:

A. **Total Product on Return**
   This is recorded as income or receipts or credit in a profit and loss account. It is the income obtained from sales and other sources together with valuation on hand at the end of accounting period.

   Some of the essential items under this component include:

- Closing valuation of output resources
- Income during the year
- Debtor at the end of the year

B. **Total Expenditure**
   This is recorded as purchases or expenses or debts in a profit and loss account. It is the sum of the expenditure items and valuation of the input resources at the beginning of accounting period.

   Some of the essential items under this component include:

- Opening valuation of input resources
- Expenses during the year

C. **Profit or Net farm Income**
   Net farm income is the amount by which the value of total product produced in the accounting period exceeds the value of total resources used during the same period i.e.

   Profit = total value of product – total expenses. It is regarded as profit if the total value of product is more than the total expenses. It is however regarded as a loss if total expenses are more than the total value of product. Profit is recorded under debt while loss is recorded under income.

Example 2

Profit and Loss Account of Ocholi Farm as at 31st May, 2012

Debt (Expenses)	**N**	**Income Valuation**	**N**
Opening valuation	3,200	Closing valuation	11,600
Day old chicks	1,400	Eggs	6,000
Seeds	1,200	Cull Birds	4,000
Feeds	1,100	Other sales	4,000
Fertilizer	1,800	Home use	3,100
Labour	1,100	Loss	-
Depreciation	1,300		

Miscellaneous	1,700		
Sub total	12,800		
Profit	15,900		
Grand total	**28,700**	**Grand total**	**28,700**

SELF-ASSESSMENT EXERCISE 2

Prepare a Profit and Loss Account for Mal. Sule Farm as at 31st May, 2010 from the following information:

i.	Maize seed for planting	N25,000
ii.	Fertilizer used	N14,800
iii.	Pesticides	N20,000
iv.	Purchases of yam seed	N50,000
v.	Tractor hire	N60,000
vi.	Transport cost	N10,000
vii.	Workers wages	N40,000
viii.	Sale of maize cobs	N250,000
ix.	Yam tubers sold	N200,000
x.	Opening valuation	N440,000
xi.	Closing valuation	N200,000

4.0 CONCLUSION

In this unit, we have learnt the meaning of assets and liabilities. We also illustrated how we can prepare a balance sheet account. From the statement of balance sheet we calculated the Net worth and financial ratios. The financial ratios calculated from balance sheet account included: Net capital ratio, working capital ratio and current capital ratio. We finally illustrated how we can prepare a profit and loss account.

5.0 SUMMARY

In this unit, you have learnt the following:

- Farm assets are goods and services owned by the farmer and used in the production process.
- Farm liabilities are goods and services which the farmer owes to other
- Farm assets are classified into three: current, working and fixed assets.
- Farm liabilities are classified into three: current, medium and long term liabilities.
- Balance sheet statement contains assets and liabilities of the business at a specified point in time.
- Networth or net capital is total assets minus total liabilities.

- Net capital ratio = $\frac{\text{Total Assets}}{\text{Total Liabilities}}$
- Working capital ratio = $\frac{\text{Working Assets + Current Assets}}{\text{Medium Term Liabilities+ Current Liabilities}}$
- Current capital ratio = $\frac{\text{Current Assets}}{\text{Current Liabilities}}$
- Profit and loss account contains income and expenses statement of a business over a given period of time
- The three main components of profit and loss account are: expenditure, income and profit.
- In profit and loss account, opening valuation and profit and recorded under expenditure column while closing valuation and loss are recorded under income column.

6.0 TUTOR-MARKED ASSIGNMENT

1. Explain the importance of the following terms in farm accounting:
a. Networth or Net Capital
b. Net Capital Ratio (NCR)
c. Working Capital Ratio (WCR)
d. Current Capital Ratio (CCR)

2a. Prepare a profit and loss account for St. John farms for the year ending 31st December 2008 using the following information.

i.	Cost of maize seeds	₦1,600
ii.	Cost of fertilizer	N1,700
iii.	Cost of insecticides	N1,100
iv.	Tractor Hiring	N 1,000
v.	Cost of Herbicides	N1,200
vi.	Cost of cassava stem	N1,300
vii.	Sales of maize	N30,000
viii.	Sales of yam tuber	N10,500
ix.	Sales of cassava tubers	N15,000
x.	Transportation cost	N1,500
xi.	Cost of processing cassava tubers	N2,500
xii.	Sales of cassava stems	N 2,500
xiii.	Wages of workers	N8,000
xiv.	Miscellaneous expenses	N2,000
xv.	Maize consumed	N600
xvi.	Yam consumed	N8,000
xvii.	Opening valuation	N45,000

xviii. Closing valuation N16,000

2b. What is the net profit or loss of the farm?

7.0 REFERENCES/FURTHER READING

Abbot, J.C., & Makeham, J.P. (1979). *Agricultural Economics and Marketing in the Tropics*. Longman, London.

Adegeye, A.J. & Dittoh, J.S. (1985). *Essentials of Agricultural Economics.* Ibadan: Impact Publishers Nig. Ltd.

Ayinde A.T.A. Abdul-Azeez & Adebayo, R.O. (1999). *Agricultural Economics and Statistics*. Ado-Ekiti: Adebayo Printing Nig. Ltd.

Castle, N.E. & Becker, H.M.(1987). *Farm Business Management.* New York. Macmillan.

Gittinger, P. (1981). *Economic Analysis of Agricultural Projects*. Baltimore. John Hopkins University Press.

Hopkins .O. & Heady, E.O. (1982). *Farm Records and Accounting.* Iowa State University Press.

Ibitoye, S.J. (2008). *Principles of Farm Management*. Lagos: National Open University of Nigeria.

Jeffery A.G. (1963). 'Record and Accounts for farm Management.' UNESCO Bulleting No. 176.

Nelson, A.G. *et al*. (1973). *Agricultural Finance*. Iowa State University Press.

Upton, M, & Q.BO. Anthonio (1981). *Farming as a Business*. London. Oxford University Press.

Sturrock F. (1982). *Farm Accounting and Management.* London. Pitman and Sons Ltd.

Subba, Reddy, .S., Roghu, Ram, P., Sastry, Neelakanta, T.V. & Bhavani, D.I.(2009). *Agricultural Economics*. New-Delhi:Oxford and IBH Publishing Co. PVT. LTD.