Virginia Cooperative Extension Virginia Tech • Virginia State University

Graduate Extension Scholars Program

Understanding Business Structures, Markets, and Risk Management Strategies Handout 3.3 _____ Publication ALCE-177-G

Lesson 3 Simulation Balance Sheet

 Name(s):
 Business Structure:
 Commodity:

Beginning questions:

• Considering Lesson 2's simulation, what are some ways to manage risk in your business?

• What are the key factors you will look at in determining how to use the futures market?

Decision/situation	Action	(Expense)/revenue	Balance
Example: Beginning balance	—	—	\$300,000
Example: It is now May and you will sell your crop in November. You see that November futures prices are higher than usual right now and are expected to go down.	Sell November futures at \$3.90/ bushel.	Your farm is 200 acres, and you expect 160 bushels/acre. $160 \times 200 = 32,000$ bushels. Sell 32,000 bushels at \$3.90 = \$124,800.	\$300,000 + \$124,800 = \$424,800 ***Note*** You will have to offset (sell) this position at the end of the simulation. Your yield might not be the same.
Example: A drought affects your state. Your yield decreases by 10 bushels/acre.	Lose yield. L	When it comes time to sell my crop, I will have to sell 10 bushels \times 200 acres = 2,000 fewer bushels on the market.	\$424,800 For now, balance is unaffected. Will change in November.
Decision/situation	Action	(Expense)/revenue	Balance
Round 1: Beginning balance			

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Lesson 3 Simulation Balance Sheet (cont.)

Decision/situation	Action	(Expense)/revenue	Balance

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