

Optional Lesson

Lesson Title: Financial & Tax Planning (chapter 9)

Unit Outcomes Addressed by this Lesson
Students will understand the tax treatments when allocating the various sources of equity.
Lesson Objectives (what the students will know and do by the end of this lesson)
The students will: <ol style="list-style-type: none">Describe and match the sources of equity contributed by members with the types of equity allocated by cooperatives.List the four ways patronage-based equity sources can be allocated.Describe the tax consequences to both the cooperative and the recipient when allocating: cash refunds, qualified retained earnings, nonqualified retained earnings, and unallocated reserve.Calculate taxable income on qualified allocations from the cooperative to the member.
Lesson Level Assessment (how the objectives will be measured)
a-c. Student section summaries and presentations d. Chapter Nine Activity worksheet
Activities and Procedures (what the teacher and students will do during the lesson)
<p>This lesson allows students to take a deeper look at the financial side of cooperatives, building on ideas presented in chapter 8. Because these concepts and the language in the text are likely to be challenging for many students, it is recommended that the teacher guide student reading and provide support with defining terms in context.</p> <p>Introduction: Time Frame: 5 minutes</p> <p>To activate prior knowledge the students built in the last lesson, review the six major concepts highlighted during the lesson involving chapter 8.</p> <p>Gathering Important Information: Time Frame: 30 minutes (15 minutes to prepare and 15 minutes to present)</p> <p>Begin by walking the students through the diagram found at the beginning of chapter nine.</p>

Help them to understand the flow chart and what it means. Help them to define the concepts found in the boxes.

Next, you can divide the class into small groups or partners and assign each small group one or two sections from chapter 9. Instruct the students to read their section(s) carefully and prepare an explanation for their classmates. The explanation should include a definition of key terms from the section. They will be presenting their sections to the class.

Cross-Curricular Opportunity: Math and Business

Time Frame: 15-20 minutes

Explain the attached taxable income problems to the students. The students can then work with their earlier small group or independently to complete the worksheet.

Materials and Resources

- Student copies of chapter 9 from Co-ops 101
<http://www.rurdev.usda.gov/RBS/pub/cir55/c55text.pdf>
- Chapter Nine Activity worksheet

Other Useful Links

- www.ag.ndsu.nodak.edu/qbcc/NDCCC/coopmonth.htm
- www.puzzlemaker.discoveryeducation.com
- www.nsacoop.org

VOCABULARY & KEY CONCEPTS:

Patronage-based sources of equity

Retained margins

Per-unit retains

Cash refunds

Qualified retains

Pass-through procedures

Nonqualified retained equity

Cooperatives

Chapter 9 Activity

Use the following as an example and calculate the taxable income for a cooperative member.

The cooperative pays the producer \$600 for his/her crop at the time of delivery. It costs the cooperative \$300 to market the crop. The cooperative then sells the crop for \$1000. The resulting margin of \$100 is returned to the patron as a patronage refund. Thus the patron receives a total payment of \$700 for the crop, a \$600 advance at the time of delivery and a \$100 patronage refund.

When the cooperative figures its taxable income, it is allowed to deduct the initial payment for the crop (\$600); its other expenses for marketing the crop (\$300) and the patronage refund (\$100). Thus it ends up with no taxable income. The patron includes both the initial payment (\$600) and the patronage refund (\$100) in taxable income, for a total of \$700.

Calculate the student's initial payment and taxable income for each of the following problems, noting that an initial payment is valued at 15% of the crop's value.

1. A cooperative pays \$4500 for a wheat crop with a marketing cost of \$500
2. " " pays \$7500 for a sunflower crop with a marketing cost of \$800
3. " " pays \$3000 for a mustard crop with a marketing cost of \$200
4. " " pays \$12000 for a sunflower crop with a marketing cost of \$700
5. " " pays \$9000 for a canola crop with a marketing cost of \$475