

CASE 1–2 Baron Coburg*

Once upon a time many, many years ago, there lived a feudal landlord in a small province of Western Europe. The landlord, Baron Coburg, lived in a castle high on a hill. He was responsible for the well-being of many peasants who occupied the lands surrounding his castle. Each spring, as the snow began to melt, the Baron would decide how to provide for all his peasants during the coming year.

One spring, the Baron was thinking about the wheat crop of the coming growing season. "I believe that 30 acres of my land, being worth five bushels of wheat per acre, will produce enough wheat for next winter," he mused, "but who should do the farming? I believe I'll give Ivan and Frederick the responsibility of growing the wheat."

Whereupon Ivan and Frederick were summoned for an audience with Baron Coburg. "Ivan, you will farm on the 20-acre plot of ground and Frederick will farm the 10-acre plot," the Baron began. "I will give Ivan 20 bushels of wheat for seed and 20 pounds of fertilizer. (Twenty pounds of fertilizer are worth two bushels of wheat.) Frederick will get 10 bushels of wheat for seed and 10 pounds of fertilizer. I will give each of you an ox to pull a plow, but you will have to make arrangements with Feyador the Plowmaker for a plow. The oxen, incidentally, are only three years old and have never been used for farming, so they should have a good 10 years of farming ahead of them. Take good care of them because an ox is worth 40 bushels of wheat.

Come back next fall and return the oxen and the plows along with your harvest."

Ivan and Frederick genuflected and withdrew from the Great Hall, taking with them the things provided by the Baron. The summer came and went, and after the harvest Ivan and Frederick returned to the Great Hall to account to their master for the things given them in the spring.

Ivan said, "My Lord, I present you with a slightly used ox, a plow, broken beyond repair, and 223 bushels of wheat. I, unfortunately, owe Feyador the Plowmaker three bushels of wheat for the plow I got from him last spring. And, as you might expect, I used all the fertilizer and seed you gave me last spring. You will also remember, my Lord, that you took 20 bushels of my harvest for your own personal use."

Frederick spoke next. "Here, my Lord, is a partially used ox, the plow, for which I gave Feyador the Plowmaker 3 bushels of wheat from my harvest, and 105 bushels of wheat. I, too, used all my seed and fertilizer last spring. Also, my Lord, you took 30 bushels of wheat several days ago for your own table. I believe the plow is good for two more seasons."

“You did well,” said the Baron. Blessed with this benediction, the two peasants departed. After they had taken their leave, the Baron began to contemplate what had happened. “Yes,” he thought, “they did well, but I wonder which one did better?”

Questions

1. For each farm, prepare balance sheets as of the beginning and end of the growing season and an income statement for the season. (Do not be concerned that you do not have much understanding of what a balance sheet and income statement are; just use your intuition as best you can.)
2. Which peasant was the better farmer?