

2015 FFA State Farm Business Management Exam

Instructions: Using a #2 lead pencil, fill in your answer using the appropriate letter on the scantron provided.

1. It is impossible to be competitive in the complex commodity marketplace without
 - a. physical accounts
 - b. the ability to collect accurate data.
 - c. the ability to estimate losses.
 - d. reducing the number of daily decisions.

2. The net worth statement or balance sheet reveals
 - a. owner equity by subtracting total liabilities from total assets.
 - b. net farm income by subtracting total expenses from total revenue.
 - c. cash income by subtracting total cash expenses from total cash receipts.
 - d. the increase in retained earnings by subtracting total liabilities from total assets.

3. Which of the following is not one of the basic financial statements?
 - a. monthly bank statement
 - b. income statement
 - c. Statement of Cash Flow
 - d. State of Owner Equity

4. To protect the price to be received for corn or soybeans being sold, the producer could
 - a. purchase a call option
 - b. purchase a put option
 - c. sell a call option
 - d. sell a put option

5. To set the maximum price incurred for soybean meal to be fed to cows, they could
 - a. purchase a call option
 - b. purchase a put option
 - c. sell a call option
 - d. sell a put option

6. The price difference between the local price and the futures prices is called
 - a. basis
 - b. ceiling
 - c. floor
 - d. cost

7. Someone who is bullish on market prices thinks that prices will
 - a. go lower
 - b. go higher
 - c. stay steady
 - d. None of the above

8. The price at which a producer buys or sells an option is the
 - a. local price
 - b. futures price
 - c. average price
 - d. strike price

9. When a producer uses the futures market, his objective is to
- obtain a loan
 - transfer risk
 - be in a government program
 - none of the above
10. The main objective of income tax management is to
- get the final line on tax form to zero
 - get into the lowest tax bracket
 - maximize after-tax income
 - minimize the tax obligation
11. Effective tax planning requires planning requires consideration of all but one of the following
- personal financial goals
 - up-to-date records
 - purchase of capital items
 - reliable long-range projections
12. The income tax schedule where farm income and expenses are reported is
- Schedule B
 - Schedule R
 - Schedule D
 - Schedule F
13. The cost of machinery, equipment and farm buildings can be deducted each year over their expected life. This is called:
- appreciation
 - depreciation
 - operating cost
 - disposition.
14. If a farmer pays \$2,550 to a neighbor for custom work, he must give him a Form _____.
- 1040
 - 1049
 - 1090
 - 1099
15. A farmer must pay what percent of the social security taxes for his hired labor?
- 25%
 - 50%
 - 75%
 - 100%
16. Principal is
- also known as the present value of a uniform series.
 - the amount of money actually borrowed from a lender.
 - a standard or a rule that guides behavior.
 - the amount of money you actually repay at the end of a loan transaction.

17. Rate of return on assets is
- what you get from letting the farm use all of your capital assets including equity.
 - what you have left over once you have paid all debt.
 - the total of all assets divided by total liabilities.
 - the percent return on the total amount of money invested in total assets.
18. Return on investment is
- the net profit or net loss realized from an investment or assets.
 - always going to be a positive number.
 - a number that represents your ability to meet all debt.
 - Something that agriculturists never figure because it is always too low.
19. A young family that just purchased a home with borrowed money should consider which risk management tool?
- diversification
 - hedging on future trading
 - life insurance
 - estate plan
20. Liability insurance is used to protect against
- crop loss
 - hail damage
 - legal action
 - livestock death loss
21. Which of the following represents a benefit of organizing as a closely held farm business corporation?
- it is less costly to incorporate than to be a sole proprietorship.
 - Corporations have access to a broader pool of financial capital.
 - Corporations have separation of ownership and management.
 - Incorporating limits personal exposure to liability.
22. The people that own a farm corporation are the
- board of directors
 - managers
 - shareholders
 - partners
23. Since a farm corporation has an infinite life,
- there is no need for estate planning.
 - management succession will not be a problem.
 - farm assets will not need to be transferred.
 - shares of stock will be transferred before or at the time of the owner's death.
24. The interest paid on a mortgage is considered
- liability
 - a variable cost
 - total cost
 - a fixed cost
25. Which is the first level of government that could govern how your land is used?
- township
 - county
 - state
 - federal

26. If a farmer discovered that he had 1000 more bushels of corn stored than he had estimated when he figured his net farm income for the year – this would ...
- raise his actual cash net farm income
 - lower his actual cash net farm income
 - raiser his actual accrual net farm income
 - lower his actual accrual net farm income
27. A cash flow budget projected for the next year can provide information on:
- projected borrowing requirements and repayment ability
 - return to the farm operator's labor and management
 - net worth of the farm business
 - rate of return on the farm investment
28. Which of the following statements is a true statement about the cash method of accounting?
- it more accurately reports true net income from the farm
 - it is more complicated than the accrual system
 - it reports the receipts and expenditures in the period in which they are received or paid
 - inventories are included as cash
29. The basic feature of a progressive income tax is that:
- an overlap in taxation occurs with state and local governments
 - double taxation occurs in certain situations
 - the higher the income, the higher the tax rate
 - the tax bears more heavily on the low income farmers
30. Lynn Cooper wants to know the rate of return earned on an investment. Lynn has a net worth of \$200,000 and liabilities of \$100,000. The return to farm capital is \$30,000. What is the rate of return of investment?
- 5%
 - 10%
 - 20%
 - 30%
31. A farmer with limited capital who is in need of temporary life insurance protection should purchase:
- an universal life policy
 - a whole life policy
 - a term life policy
 - a limited payment life policy
32. One of the most important things for a young farmer to consider when beginning to farm is:
- purchasing a farm
 - purchasing new or used equipment
 - establishing some goals
 - a limited payment life policy
33. The major advantage of renting or leasing over purchasing land or machinery is to:
- reduce income taxes
 - release capital for other uses
 - increase depreciation allowances
 - improve output per worker

34. A survivor who inherits property is a:
- heir
 - decedent
 - guardian
 - executor
35. Farmer Jones can either sell his corn or feed it to his cattle. In deciding which alternative will yield the highest profit, he should compare.
- the price of corn with the price of cattle
 - the price of corn minus hauling costs with the increase in value that his cattle will have after eating the corn.
 - the cost of hauling corn to the elevator with the cost of hauling heavier cattle to market
 - the current price of corn with the cost of storing it six months
36. The marketing strategy of selling a \$5.00 call option and buying a \$4.50 put option is known as a
- futures contract
 - spread
 - fence
 - mistake
37. The workman's compensation law
- guarantees agricultural workers over 16 a minimum wage
 - provides for payments by an employer to an employee injured on the job
 - allows farm workers to pay income tax on only 50% of wages over a minimum level
 - stipulates certain fringe benefits to be paid to full-time agricultural workers
38. You have secured a loan and now have the money to buy one complete section of Minnesota farm land, how many acres would you actually be buying?
- 360 acres
 - 640 acres
 - 960 acres
 - 1280 acres
39. An enterprise budget is:
- a physical and financial plan for the entire farm business for a specific period of time.
 - statement of projected costs and returns associated with one production process, usually for one production period.
 - the tools used in analyzing only changes in the farm operations and the potential change in net income.
 - record of past production performance
40. Opportunity cost is:
- the return a resource can earn when put to its next best alternative use
 - the cost of not acting at the proper time and thus losing that opportunity
 - the cost of using labor and capital in the optimum proportions
 - the difference between the local cash price and the CBT futures price
41. Westend Poultry Farms, located in the Crabtree's home county, raises three million broilers annually. In addition, Westend Poultry Farms owns the mill which provides feed for the birds, owns the processing facility, and markets the dressed birds to retail grocery stores. This type of business structure is known as:
- horizontal integration
 - vertical integration
 - a marketing cooperative
 - a supply cooperative

42. Which type of business would distribute patronage refunds?
- individual proprietorship
 - cooperative
 - limited partnership
 - corporation
43. An advantage of a family corporation is:
- special tax benefits in pension funds and profit sharing trusts.
 - unlimited liability of share holders
 - convenience of forming the corporation
 - a method to acquire other corporations through tax free exchange of stock
44. What is the most important point to consider in developing a farm lease contract?
- it should be in writing
 - it should specify the land description
 - it should state the type of crops to produce
 - it should be an oral agreement
45. Commercial fertilizer should be applied to crops as long as:
- the added production returns increase gross farm income
 - the added fertilizer maintains soil productivity
 - the added production returns are more than the added cost of the fertilizer
 - the added fertilizer increases crop yields per acre
46. If the total revenue of a farmer will cover his variable costs, but not cover his total costs he has:
- minimized his losses
 - been operating when he should not
 - shown a return to all factors of production
 - maximized his profits
47. The Federal Insurance Contribution Act (FICA) tax is also called:
- Medicare
 - Medicaid
 - Social Security
 - Internal Revenue
48. A drought, storm, or disease ruins a corn crop, and an extremely small yield is expected, the farmer should:
- go to town and obtain a full-time job
 - harvest the crop, if the yield will pay the harvest costs
 - leave the crop in the field to avoid additional costs
 - forget the crop and plan for next year
49. Which of the following does not represent a variable cost in corn production?
- starter fertilizer
 - land taxes
 - hail insurance premium
 - seed corn
50. The two components of the annual cost of owning a capital item are:
- interest and depreciation
 - wear and tear
 - gasoline and oil
 - heat and light

2015 FFA State Farm Business Management Exam KEY

1. B
2. A
3. A
4. B
5. A
6. A
7. B
8. D
9. B
10. C
11. C
12. D
13. B
14. D
15. B
16. B
17. D
18. A
19. C
20. C
21. D
22. C
23. D
24. D
25. A

26. C
27. A
28. C
29. C
30. B
31. C
32. C
33. B
34. D
35. B
36. C
37. B
38. B
39. B
40. A
41. B
42. B
43. A
44. A
45. C
46. A
47. C
48. B
49. B
50. A