

2016 Winter Invite Farm Business Management Exam

MULTIPLE CHOICE

(Score 2 points per question)

Bubble in the most correct answer to each question on the top half of the back side of the scantron.

- ____ 1. When local basis increases, it is an indication that
 - a. futures prices are decreasing
 - b. local demand is decreasing
 - c. local supply is short
 - d. local price is high than the futures price

- ____ 2. The 2016 elections are expected to bring what change to agricultural businesses during the Trump administration?
 - a. More trade agreements with other countries with fewer restrictions.
 - b. Increase the capital gains tax rates
 - c. Decrease the federal income tax rates
 - d. Increase the federal income tax rates

- ____ 3. Working capital is a measure of available
 - a. cash
 - b. current assets minus current liabilities
 - c. accounts receivables
 - d. available short term credit

- ____ 4. The interest paid on a mortgage is considered
 - a. a liability
 - b. a variable cost
 - c. total cost
 - d. a fixed cost

- ____ 5. Which is the first level of government that could govern how your land is used?
 - a. township
 - b. county
 - c. state
 - d. federal

- ____ 6. A farmer rents an adjacent 160 acres of cropland for \$110 per acre to operate with the current 800 acres and existing equipment. The effect on the farmer's costs will be:
 - a. to increase fixed costs per acre.
 - b. to decrease fixed costs per acre.
 - c. to increase variable costs per acre.
 - d. to decrease variable costs per acre.

- ____ 7. Which of the following is not included as gross income under the accrual system?
 - a. value of crops produced
 - b. increase in value of livestock purchased
 - c. value of feed fed to livestock
 - d. government payments and dividends

- ___ 8. 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
 - raise his actual accrual net farm income
 - lower his actual accrual net farm income
- ___ 9. 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
- ___ 10. In January a cattle feedlot operator is concerned that the on-going drought and the severe winter will create higher feeder cattle prices this fall. To reduce risk and uncertainty he could
- sell a live cattle contract for this October
 - buy a live cattle contract for this October
 - sell a feeder cattle contract for this October
 - buy a feeder cattle contract for this October
- ___ 11. 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
- ___ 12. Which type of contract offered by many elevators allows the seller to lock in their basis?
- put option
 - call option
 - hedge to arrive
 - price later
- ___ 13. A farmer who wants the right but not the obligation to buy a particular commodity at a specific price level would use a:
- basis contract.
 - put option.
 - call option.
 - cash forward contract.
- ___ 14. The new crop futures month for soybeans is considered to be
- September
 - November
 - December
 - May

- ___ 15. Income taxes which are assessed at the same percentage rate for everyone is called the method.
- flat
 - progressive
 - regressive
 - natural
- ___ 16. 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
- ___ 17. 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%
- ___ 18. A banker loaning money to farm operators may require a cash flow analysis to:
- determine the profitability of farm operation.
 - collect data to complete the new worth statement.
 - reduce the farmer's chance of obtaining a loan.
 - evaluate loan repayment potential.
- ___ 19. 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
- ___ 20. 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
 - specializing in one enterprise
- ___ 21. Incorporating a farm enables the business to:
- sell cooperatively
 - be more permanent
 - improve production
 - increase personal liability
- ___ 22. A subchapter S corporation is all but one of the following:
- is formed and managed much the same as a regular corporation
 - a form of business that is subject to the same tax rules as a regular corporation
 - only the individual owner or shareholders pay tax on the earnings, not the corporation
 - it allows dairymen to benefit from favorable capital gains on sale of raised cattle

- ___ 23. 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
- ___ 24. A survivor who inherits property is a:
- heir
 - decedent
 - guardian
 - executor
- ___ 25. To claim tax deductions for custom work paid for over \$600 the following form should be filled out and sent to the vendor and IRS.
- 1099
 - W2
 - K1
 - no documentation is needed to be filed for operational farm expenses
- ___ 26. 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
- ___ 27. Usually the point of maximum profitability _____ diminishing returns starts.
is a.
- before
 - after
 - at the same point when
 - diminishing returns have no impact on maximum profitability
- ___ 28. In the grain trade, inverted basis is most likely to occur when the local crop is
- in very short supply
 - in great surplus
 - of excellent quality
 - ready for harvest
- ___ 29. 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
- ___ 30. 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

- ___ 31. 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
- ___ 32. 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.
- ___ 33. 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
- ___ 34. All but one of the following are advantages of a C corporation.
- possible income tax savings for high income business
 - simplification of estate transfer
 - limited liability for each shareholder
 - assures a profit due to better management
- ___ 35. Which of the following forms of business organization would **NOT** have a liability shield to protect the owner's personal property?
- general partnership
 - limited liability company
 - sub-chapter S corporation
 - corporation
- ___ 36. 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.
- ___ 37. Which type of business would distribute patronage refunds?
- individual proprietorship
 - cooperative
 - limited partnership
 - corporation

- ___ 38. 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
- ___ 39. 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
- ___ 40. 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
- ___ 41. 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
- ___ 42. A forward contract
- does not lock a farmer into selling
 - sets the price for a commodity and the time and place for its delivery
 - is not enforceable legally
 - both a and c
- ___ 43. Forward contracting a crop which you are just now planting:
- is a guaranteed method of making a profit
 - can only be done using the futures market
 - can be used to lock in a price - reducing the risk of future price declines
 - usually requires the services of a brokerage firm
- ___ 44. The Federal Insurance Contribution Act (FICA) tax is also called:
- Medicare
 - Medicaid
 - Social Security
 - Internal Revenue
- ___ 45. A sales tax imposed on the retail sale of goods is called a
- consumer tax
 - property tax
 - vender tax
 - progressive tax

- 46. The person who writes or sells an option
 - a. is assuming the risk of adverse price changes in the futures market
 - b. is passing the risk of adverse price changes in the futures market on to the person who buys the option
 - c. is the one who makes the money
 - d. must have possession of the underlying commodity

- 47. When a drought, storm, or disease ruins a corn crop, and an extremely small yield is expected, the farmer should:
 - a. go to town and obtain a full-time job
 - b. harvest the crop, if the yield will pay the harvest costs
 - c. leave the crop in the field to avoid additional costs
 - d. forget the crop and plan for next year

- 48. Which of the following does not represent a variable cost in corn production?
 - a. starter fertilizer
 - b. land taxes
 - c. hail insurance premium
 - d. seed corn

- 49. The two components of the annual cost of owning a capital item are:
 - a. interest and depreciation
 - b. wear and tear
 - c. gasoline and oil
 - d. heat and light

- 50. If an individual takes out a \$10,000 loan with equal yearly principal payments at 15% interest on the unpaid balance for 20 years which of the following statements is not correct.
 - a. the first year principal and interest payment will be \$2,000
 - b. the second year principal payment will be \$1,925
 - c. the third year principal and interest payment will be \$1,850
 - d. The twentieth year payment of principal and interest will be \$575

2014 U of MN FFA Winter Invite FBM Exam Key

1. B
2. C
3. B
4. D
5. A
6. B
7. C
8. C
9. A
10. D
11. C
12. D
13. C
14. B
15. A
16. C
17. B
18. D
19. C
20. C
21. B
22. C
23. B
24. A
25. A
26. B
27. B
28. A
29. C
30. B
31. B
32. B
33. A
34. D
35. A
36. B
37. B
38. A
39. A
40. C
41. A
42. B
43. C
44. C
45. A
46. A
47. B
48. B
49. A
50. B