

2018 MN FFA Farm Business Management CDE Exam

50 questions- 2 points each

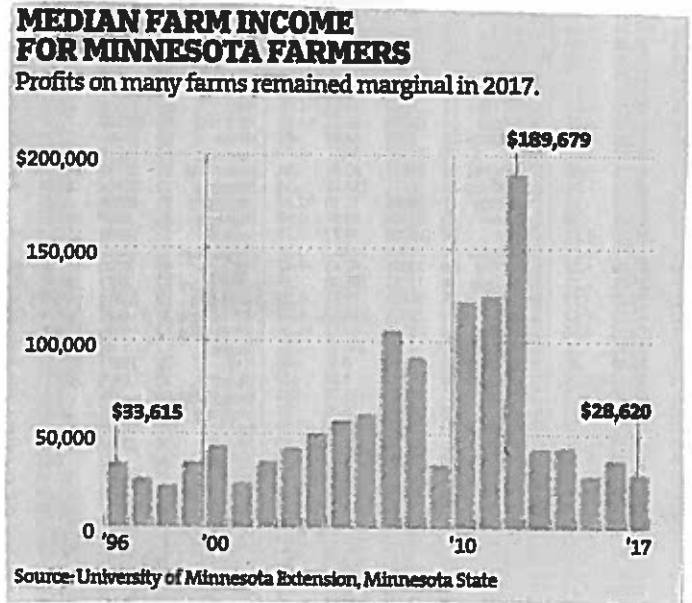
Bubble in the most correct answer on the top half of your scantron.

Use the bar graph on the right to answer questions 1-4.

1. Which year did the MN farmers receive their Largest Median farm income?
A. 2008
B. 2010
C. 2012
D. 2014

2. The 2017 MN median farm income for 2017 was:
A. \$28,620
B. \$33,615
C. \$102,345
D. \$189,679

3. Which year did MN farmers receive the Lowest median farm income?
A. 1998
B. 2000
C. 2002
D. 2004



4. Since 2013, MN farmer's median farm income has been less than their expenses each year. Why are they still in business?
A. Most are married to the banker's daughter
B. They have sold major financial interests to large agricultural corporations.
C. MN farmers are drawing on reserves from the profitable years (2010-2013)
D. Median farm income has no effect on profits
5. A banker loaning money to farm operators may require a cash flow analysis to:
A. determine the profitability of farm operation.
B. collect data to complete the new worth statement
C. reduce the farmer's choice of obtaining a loan.
D. evaluate loan repayment potential
6. A farmer with limited capital who is in need of temporary life insurance protection should purchase:
A. an universal life policy
B. a whole life policy
C. either A or B
D. None of the above
7. One of the most important things for a young farmer to consider when beginning to farm is:
A. purchasing a farm
B. purchasing new or used equipment
C. establishing some goals
D. diversifying his business

8. The person who writes or sells an option
- A. is assuming the risk of adverse price changes in the future 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
9. Incorporating a farm enables the business to:
- A. sell cooperatively
 - B. be more permanent
 - C. improve production
 - D. increase personal liability
10. A written agreement by which an owner of property transfers title to someone for the benefit of beneficiaries is a:
- A. trust
 - B. power of attorney
 - C. executor
 - D. estate will
11. What type of contract offered by many elevators allows the seller to lock in their price?
- A. put option
 - B. call option
 - C. hedge to arrive
 - D. price later
12. A farmer who wants the right but not the obligation to buy a particular commodity at a specific price level would use a:
- A. basis contract
 - B. put option
 - C. call option
 - D. cash forward contract
13. A sales tax imposed on the retail sale of goods is called a:
- A. consumer tax
 - B. property tax
 - C. vendor tax
 - D. progressive tax
14. An insurance premium is:
- A. the payment one makes as a policy holder in agreement with the policy for insurance
 - B. the amount the insured person receives in case he sustains the loss for which he is insured against
 - C. generally regarded as a variable cost of production
 - D. none of the above
15. In preparing a cash flow statement one should not include:
- A. family living expense
 - B. interest payment of long term debt
 - C. depreciation
 - D. cash patronage dividends

16. The spread between local cash price and the price of the near term futures contract is called:
- A. margin
 - B. bid
 - C. basis
 - D. commission
17. The specific price at which the option purchaser may buy or sell the commodity is the:
- A. strike price
 - B. call price
 - C. put price
 - D. option price
18. If tea and coffee are substitutes, then an increase in the supply of coffee will:
- A. increase the demand for tea, all other things equal
 - B. decrease the supply of tea, all other things equal
 - C. decrease the demand for tea, all other things equal
 - D. not affect the demand for tea
19. The process of finding the present value of a dollar to be received at some future date is known as:
- A. compounding
 - B. discounting
 - C. forwarding
 - D. ratio analysis
20. A cost of production which does not vary with the level of total production and includes such items as depreciation, taxes, insurance, and interest on investment is called?
- A. a liability
 - B. a variable cost
 - C. total cost
 - D. a fixed cost
21. The cost of using a resource in one way is the return that could be obtained from using it in its most profitable alternative use. This economic principle is;
- A. Peter's principle
 - B. the principle of marginal substitutions
 - C. the law of diminishing returns
 - D. the principle of opportunity cost
22. Good tax management is:
- A. paying no more than the legal minimum
 - B. evading the payment of tax owed
 - C. paying a little more than you actually owe
 - D. failing to report all your income
23. Which term is used to describe a "Civil Wrong" which causes damage to another person or their property?
- A. warrant liability
 - B. assault liability
 - C. tort liability
 - D. negligent liability
24. What is the role of the Judicial system in regard to laws affecting agricultural businesses?
- A. interpreting the meaning of laws
 - B. enforcing laws
 - C. debating and establishing laws
 - D. all of the above

25. Which of the following must be proven to sue another person for negligence?
- A. damages were suffered
 - B. damages were caused by other person's actions
 - C. other person's actions were not reasonable
 - D. all of the above
26. Fuel tax is an example of a
- A. property tax
 - B. progressive tax
 - C. vendor tax
 - D. use tax
27. Calculate the first year payment on a constant principal/decreasing payment loan for \$240,000 over 20 years at 9% interest.
- A. \$12,450
 - B. \$22,350
 - C. \$33,600
 - D. \$36,200
28. Up to harvest time a farmer has spent \$20 per acre for labor, seed and machine costs on oats. Price of oats has fallen and a localized drought has reduced production yields. With an anticipated price of \$1.50 per bushel on an expected yield of 12 bushels per acre, the farmer cannot expect to make a profit on this crop. Assuming that the oats crop can be harvested for \$8.00 per acre, the farmer should:
- A. assume his \$20 loss for the year and leave the oats in the field
 - B. harvest and sell the oats crop
 - C. sell the oats crop as pasture at \$4.00 per acre
 - D. sell the oats crop for hay at \$55.00 per acre
29. The workman's compensation law
- A. guarantees agricultural workers over 16 a minimum wage
 - B. provides for payments by an employer to an employee injured on the job
 - C. allows farm workers to pay income tax on only 50% of wages over a minimum level
 - D. stipulates certain fringe benefits to be paid to full-time agricultural workers
30. 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?
- A. 360 acres
 - B. 640 acres
 - C. 960 acres
 - D. 1280 acres
31. An enterprise budget is:
- A. a physical and financial plan for the entire farm business for a specific period of time
 - B. statement of projected costs and returns associated with one production process, usually for one production period
 - C. the tools used in analyzing only changes in the farm operations and the potential change in net income.
 - D. record of past production performance
32. A demand curve shows:
- A. the quantities people will buy at various possible prices
 - B. the prices people will pay for various possible quantities
 - C. the quantities people would like to buy at various possible prices
 - D. A and B

33. Commercial fertilizer should be applied to crops as long as:
- A. the added production returns increase gross farm income
 - B. the added fertilizer maintains soil productivity
 - C. the added production returns are more than the added cost of the fertilizer
 - D. the added fertilizer increases a crop yields per acre
34. Which one of the following best describes the law of diminishing returns when combining successive units of variable factors with a fixed factor?
- A. the return per additional unit added will decline at some point
 - B. the total product will continue to increase abut the marginal product will increase or decrease depending on price and cost factors
 - C. increased output becomes unprofitable
 - D. defines that point at which the firm would operate
35. If the total revenue of a farmer will cover his variable costs, but not cover his total costs he has:
- A. minimized his losses
 - B. been operating when he should not
 - C. shown a return to all factors of production
 - D. maximized his profits
36. A farmer rents an adjacent 160 acres of cropland for \$200 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
37. Accrual accounting:
- A. records income when received and expenditures when paid.
 - B. records income when earned and expense when incurred.
 - C. does not require maintaining an inventory of assets.
 - D. is not recommend by accountants
38. In preparing an accrual income statement – which of the following formulas should be used:
- A. beginning inventory minus ending inventory
 - B. ending inventory minus beginning inventory minus sales
 - C. beginning inventory plus purchases minus ending inventory minus sales
 - D. ending inventory plus sales minus beginning inventory minus purchases
39. 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
40. A farmer has total assets of \$500,000 which includes a market value of \$300,000 on land. The farmer's debt to equity ratio is 1.0 : 1. The lender values the land at book value which is 10% less than market value. What is the farmer's debt to equity ratio at book value?
- A. 0.88:1
 - B. 1.12:1
 - C. 1.14:1
 - D. 1.27:1

41. 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 ...
- A. raise his actual cash net farm income
 - B. lower his actual cash net farm income
 - C. raise his actual accrual net farm income
 - D. lower his actual accrual net farm income
42. A farmer who wants the right but not the obligation to sell a commodity at a specific price level would use a:
- A. basis contract
 - B. put option
 - C. call option
 - D. cash forward contract
43. If a farmer writes a check for \$10,000 to pay off the remainder of the principal of a tractor loan:
- A. assets are reduced and equity declines
 - B. liabilities are reduced and equity increases
 - C. assets and liabilities are reduced and equity is unaffected
 - D. assets, liabilities, and equity each decline
44. The Federal Insurance Contribution Act (FICA) tax is also called:
- A. Medicare
 - B. Medicaid
 - C. Social Security
 - D. Internal Revenue
45. 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?
- A. 5%
 - B. 10%
 - C. 20%
 - D. 30%
46. A banker loaning money to farm operators may require a cash flow analysis to:
- A. determine the profitability of farm operation
 - B. collect data to complete the new worth statement
 - C. reduced the farmer's chance of obtaining a loan
 - D. evaluate loan repayment potential
47. 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
48. The major advantage of renting or leasing over purchasing land or machinery is to:
- A. reduce income taxes
 - B. release capital for other uses
 - C. increase depreciation allowances
 - D. improve output per worker
49. 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.
- A. 1099
 - B. W2
 - C. K1
 - D. no documentation is needed to be filed for operational farm expenses
50. 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. consider purchasing crop insurance for the next year

2018 MN FFA Farm Business Management CDE Exam Key

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

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