

**NEBRASKA FFA FARM MANAGEMENT CAREER DEVELOPMENT CONTEST**  
**2016 Farm Business Management Practice Contest Examination**

1. A farm business operation which is highly financially leveraged is best described as a situation where:
  - a. Total Liabilities are high relative to the farm's current Net Worth.
  - b. Current Liabilities are greater than the farm's current Gross Cash Earnings.
  - c. Net Farm Income accounts for a high percentage of the farm's current Total Assets.
  - d. Total Liabilities exceed Total Assets for the farm business.
  - e. Current Assets are actually less than the farm's existing Current Liabilities.
2. Cattle producer Fred Feeder would like to calculate the value (actual cost) of the feed that he fed to his cattle this past year during 2015. Fred has compiled the following facts:

Beginning Year (1/1/2015) cattle feed inventory .....	\$300,000
Cost of cattle feed purchased during 2015.....	\$206,000
Value of cattle feed sold during 2015.....	\$102,000
Value of cattle feed produced during 2015.....	\$225,000
Ending Year (12/31/2015) cattle feed inventory.....	\$315,000
- What is the actual value (cost) of the feed that was fed to Fred's cattle during the past year 2015?
  - a. \$344,000
  - b. \$329,000
  - c. \$314,000
  - d. \$416,000
  - e. \$446,000
3. Anne Guess buys feeder cattle, buys corn for feed, and sells the fat cattle for slaughter. She would like to hedge all her purchases and cattle sales using the commodity futures market. To accomplish this purpose, her positions in the commodity futures market should be:
  - a. "short" fat cattle, "long" feeder cattle, and "long" corn.
  - b. "long" fat cattle, "short" feeder cattle, and "short" corn.
  - c. "short" fat cattle, "short" feeder cattle, and "long" corn.
  - d. "long" fat cattle, "long" feeder cattle, and "long" corn.
  - e. "short" fat cattle, "short" feeder cattle, and "short" corn.
4. A farmer was late getting soybeans planted and an early Fall frost hit the crop before the soybeans matured. Soybean harvesting costs are \$38 per acre. Returns will be only \$80 per acre when the soybeans are harvested. Prior to the frost, \$106 per acre had already been spent for soybean production expenses. The farmer should:
  - a. Abandon the soybean crop because the farmer cannot cover all variable expenses including harvesting.
  - b. Rent the field to a neighbor for \$38 per acre to use as sheep grazing instead of harvesting the soybeans.
  - c. Proceed to harvest the soybeans and then sell the soybeans for an \$80 per acre return.
  - d. Harvest half of the soybean acres and abandon the other half of the soybean crop to reduce losses.
  - e. Plant corn next year as the crop production enterprise instead of soybeans to avoid the risk of frost.
5. In order to reduce crop risks to the farm business, a farm owner might do all of the following except:
  - a. Hedge grain production using a commodities exchange.
  - b. Plant several different crops in the farm's grain production rotation.
  - c. Carry crop insurance for grain production enterprises.
  - d. Forward price contract for the sale of crop commodities.
  - e. Select the combination of crop enterprises which maximizes expected profits.

**(Questions 6-9)** Dave Drought has suffered through three years of dry weather and is in a difficult financial situation. He ended last year (12/31/2015) with an outstanding operating loan principal balance of \$80,000 and is considering the possibility of selling his combine during 2016 in order to pay off part of his debts. The combine was purchased in 2010 for \$360,000. He has claimed a total of \$336,000 depreciation on the combine through 2015. He plans to sell his combine on April 1, 2016 for a price of \$100,000. Dave had to borrow an additional \$50,000 on his existing operating loan on January 1, 2016. An interest rate of 8% is charged on Dave's operating farm loan.

6. What is the current adjusted basis (Book Value) of Dave's combine?

- a. \$0
- b. \$24,000
- c. \$76,000
- d. \$100,000
- e. \$130,000

7. If Dave sells his combine for \$100,000, how much taxable income gain will result from this sale in 2016?

- a. There is no taxable income gain.
- b. \$76,000
- c. \$100,000
- d. \$124,000
- e. \$160,000

8. How much total interest expense would have accrued on Dave's operating loan from the start of the year (1/1/2016) to April 1, 2016?

- a. \$4,000
- b. \$3,467
- c. \$2,600
- d. \$1,600
- e. \$10,400

9. Dave has decided not to sell his combine and instead borrows an additional \$100,000 on his operating loan. The \$100,000 will be borrowed on July 1, 2016 at the current 8% loan interest rate. At the end of 2016, Dave plans to pay off the entire balance of his operating loan. How much will it cost Dave to repay his operating loan (principal plus interest) on December 31, 2016?

- a. \$140,400
- b. \$230,000
- c. \$248,400
- d. \$244,400
- e. \$243,000

10. Financial progress for a farm business operation from one year to the next year is best measured by the:

- a. Change in the farm's Total Assets during the past year.
- b. Change in the farm's Net Worth during the past year.
- c. Change in the farm's Total Liabilities (debt) during the past year.
- d. Change in the farm's taxable farm income during the past year.
- e. Change in the farm's cash available (cash reserve) during the past year.

11. The advantage of financial leasing to acquire a new tractor rather than purchasing it is that:

- a. A leased new tractor can be depreciated more rapidly than a new tractor that is purchased.
- b. Leasing the new tractor usually requires less "up-front" money for down payment.
- c. A leased new tractor qualifies for investment tax credit while a purchased new tractor does not.
- d. Leasing a new tractor will be less expensive (less total cost) over the long run than purchasing.
- e. All of the above are advantages of financial leasing.

12. You are attempting to analyze the prospects for beef prices in the coming year. Which of the following factors would result in (cause) the outlook for beef prices to be decreasing next year?

- a. The current prices for pork and chicken are low and are not expected to rise in the near future.
- b. Consumer income levels will continue increasing next year.
- c. The market supply of beef is expected to decrease during the next 12 months.
- d. Foreign demand for beef will be significantly higher for the upcoming year.
- e. Consumers are becoming more positive about the health benefits gained from eating beef.

**(Questions 13-17)** Farm Owner Deets N. Assets has taken a complete farm inventory and has collected the following information on the value of everything his farm owns and owes as of December 31, 2015:

Land and buildings owned .....	\$700,000	Value of breeding livestock owned.....	\$185,000
Value of grain in storage .....	\$130,000	Value of feeder livestock owned.....	\$214,000
Mortgage owed on land.....	\$225,000	Cash rent owed to the landlord.....	\$16,000
Value of machinery owned .....	\$300,000	Value of feed in storage .....	\$92,000
Loans owed on machinery .....	\$112,000	Crop production loan outstanding .....	\$59,000
Farm real estate taxes owed .....	\$9,000	Value of supplies in storage .....	\$47,000
Cash on hand.....	\$ 5,000	Unpaid farm expense accounts .....	\$18,000

13. The total value of Deets' **farm assets** owned by his farming operation is:

- a. \$1,732,000    b. \$1,673,000    c. \$1,668,000    d. \$1,538,000    e. \$1,302,000

14. The total value of Deets' **farm liabilities** owed by his farming operation is:

- a. \$396,000    b. \$405,000    c. \$423,000    d. \$439,000    e. \$531,000

15. The total value of Deets' **Net Worth** for his farming operation is:

- a. \$863,000    b. \$1,201,000    c. \$1,234,000    d. \$1,245,000    e. \$1,302,000

16. Deets N. Assets owns **Current Assets** in his farming operation of:

- a. \$788,000    b. \$702,000    c. \$274,000    d. \$436,000    e. \$488,000

17. Deet N. Assets owes **Current Liabilities** in his farming operation of:

- a. \$93,000    b. \$86,000    c. \$198,000    d. \$102,000    e. \$214,000

18. Harry Highgate's farming operation earned a Net Farm Income of \$180,000 last year in 2015. The value (Opportunity Cost) for unpaid farm labor (operator and family) was \$50,000. Assets in the farm business operation are worth \$1,500,000 while farm liabilities total \$500,000. What was the percent Return on Equity earned in 2015 by Harry's farming operation?

- a. 12%    b. 18%    c. 13%    d. 9%    e. 23%

19. Assume a farm operation has Total Assets of \$2,000,000 which includes a market value of \$1,250,000 for farm real estate. Total Liabilities are \$750,000. The farm has a Leverage Ratio of 60%. If the farm's lender values the farm real estate at a book value which is 20% less than its current market value. What is now the farm's new Leverage Ratio if farm real estate is valued at its book value rather than its market value?

- a. 72%    b. 75%    c. 80%    d. 88%    e. 100%

20. The economic concepts of Marginal Revenue and Marginal Cost are used to determine the profit maximizing output level in the production process. If total returns exceed total costs of production, then profits will reach their maximum (highest level) when:

- a. Marginal Revenue is at its maximum level and Marginal Cost is at its minimum level.
- b. Marginal Revenue is equal to zero and Marginal Cost is declining as production increases.
- c. Marginal Revenue is greater than the per unit cost of production as measured by Marginal Cost.
- d. Marginal Revenue is at its minimum level and Marginal Cost is at its maximum level.
- e. Marginal Revenue equals Marginal Cost in the production process.

21. Financial solvency for a farming operation has been achieved when the farm owner has:

- a. Sufficient Current Assets in the farm business to cover the payment of all current debts.
- b. Net Income earned from the farm business will exceed the payment of farming expenses.
- c. Total Assets in the farm business are enough to repay all existing farm debts.
- d. A positive Cash Flow balance is generated by the farm business operation during the year.
- e. Equity in the farm business will cover all loan payments coming due within the next year.

22. The Current Debt Ratio for a farming operation is a measure of:

- a. Managerial Ability
- b. Credit Reserve
- c. Cash Flow
- d. Equity Solvency
- e. Financial Liquidity

23. A potato producer is able to produce 300 pounds of potatoes per acre using 500 pounds of fertilizer. With the application of 600 pounds of fertilizer, the farmer can produce 320 pounds; at 700 pounds, 330 pounds are produced; and at 800 pounds, potato production goes to 335 pounds. Fertilizer can only be added in 100 pound increments. If potatoes sell for \$2 for each pound produced and fertilizer costs \$14 per 100 pounds applied, how many pounds of fertilizer should be applied per acre to maximize net returns above the cost of fertilizer?

- a. 500
- b. 600
- c. 700
- d. 800
- e. No fertilizer should be applied.

24. The total amount borrowed (loan principal) for a farm loan can actually be increased without increasing the amount of the annual payments for the loan by:

- a. Agreeing to pay the lender a higher loan interest rate for the money borrowed.
- b. Increasing the number of years for the loan repayment period.
- c. Reducing the farm's current production costs to generate more profits.
- d. Buying more acres of land as collateral security to reduce the loan's risk.
- e. Paying off the loan at a quicker repayment rate before reaching its loan maturity.

25. How should you value farm grown feeds such as corn or hay in a livestock feeding enterprise budget?

- a. The actual cash amount invested in growing crops for feed.
- b. Estimated purchase cost of similar commercial feeds for livestock.
- c. Actual production costs of the farm grown feeds.
- d. Current market selling price of the farm grown feeds.
- e. Opportunity cost for producing feed for livestock production.

26. The main goal for farm income tax management by a farm owner should be to:

- a. Minimize the farm's before-tax income.
- b. Minimize the total income taxes paid by the farm.
- c. Maximize the income taxes paid by the farm.
- d. Maximize taxable income to the farm business.
- e. Maximize the farm's after-tax income.

27. A grain elevator operator wants to hedge grain that is in storage to protect against a price decline. When the grain is purchased, the grain elevator operator should:

- a. Sell grain futures contracts and buy the contracts back when the grain is sold.
- b. Buy grain futures contracts and sell the contracts when the grain is sold.
- c. Sell the grain and buy futures contracts if the price goes up.
- d. Sell the grain and sell futures short, and then buy back the futures at the end of the storage period.
- e. Buy put options in the futures market until the grain is sold.

28. When an increase in the level of production of one enterprise causes a reduction in the level of production of another enterprise, the production relationship between these two farm enterprises would be:

- a. Independent
- b. Competitive
- c. Supplementary
- d. Complementary
- e. Restrictive

29. Which one of the following items would not appear on a Balance Sheet dated December 31, 2015 for a farming operation?

- a. A farm mortgage payment that was owed in 2015 and still remains unpaid.
- b. Farm real estate taxes assessed for 2015 that will be paid the following year 2016.
- c. Feeder pigs that were bought, fed out, and then sold during 2015.
- d. A new combine purchased by the farm business during 2015.
- e. Grain harvested during 2015 that is still being held in storage on the farm.

30. A soybean producer decides to store 8000 bushels of soybeans at the local grain elevator for the next five months. The market price at harvest is \$8.00 per bushel. The elevator charges \$.02 per bushel per month for storage plus a one time \$.05 per bushel handling charge. The producer must borrow \$48,000 at 8% annual interest rate for the next five months until the 8000 bushels of soybeans are sold. What per bushel selling price must be received by the producer for these soybeans to break even and cover storage and opportunity costs?

- a. \$8.55
- b. \$8.20
- c. \$8.27
- d. \$8.35
- e. \$8.63

31. A farm operation has a Leverage Ratio of 2 to 1. Current Liabilities total \$150,000 and Non-current Liabilities total \$800,000 for this farming operation. What is the value of farm's Total Assets in this operation?

- a. \$1,900,000
- b. \$475,000
- c. \$950,000
- d. \$1,425,000
- e. The answer cannot be determined.

32. On April 1, 2015 corn producer Karen Cornstalk borrowed \$120,000 to buy production supplies to plant her corn crop. On December 1, 2015 she repaid the \$120,000 loan principal along with \$7600 loan interest. What annual interest rate did Karen pay on her corn production loan during this past year 2015?

- a. 10.85%
- b. 9.50%
- c. 8.44%
- d. 7.60%
- e. 6.33%

33. An advantage for making a farm estate the beneficiary of a life insurance policy is to:

- a. Reduce the amount of estate taxes that must be paid.
- b. Decrease the size of the taxable farm estate itself.
- c. Provide insurance protection to heirs of the farm estate.
- d. Provide cash funds to satisfy potential tax liabilities.
- e. Keep the farm estate assets financially illiquid.

34. Tom Farmer earned a Net Farm Income of \$232,000 from farming last year (2015) after paying his farm costs. Tom valued his unpaid labor and management to be worth \$61,000. His total farm assets are valued at \$3,000,000. Tom's farm has outstanding loan mortgages and other debts of \$1,250,000. Tom paid \$106,250 loan interest expense during 2015 for his farm debts. What Rate of Return on Investment did Tom Farmer earn for the current investment in his farming operation for this past year 2015?

- a. 8.50 %
- b. 13.31%
- c. 9.24%
- d. 5.70%
- e. 9.78%

35. Dryland corn in eastern Nebraska has an expected yield of 125 bushels per acre and has a production cost of \$220 per acre. Expected market prices are \$3.25 per bushel for corn and \$9.00 per bushel for soybeans. Soybeans can be raised with a production cost of \$204 per acre. At what yield per acre would soybeans generate the same net return per acre as dryland corn production?

- a. 22.67 bushels    b. 39.15 bushels    c. 45.13 bushels    d. 43.36 bushels    e. 47.11 bushels

36. A farmer is considering purchasing a new round baler. Annual machinery ownership costs will be 20% for the baler's purchase price. The annual operating costs for the baler will be \$9,000 per year. The new baler will increase income by \$3,000 per year due to increased hay yields through better timeliness and save another \$10,000 in previous custom hay baling costs. What is the maximum purchase cost the farmer can pay for this new baler and still maintain the same level of the farm's current annual farm operation profits?

- a. \$6,000    b. \$50,000    c. \$110,000    d. \$11,000    e. \$20,000

37. An increasing rate of inflation in the farm economy to a farm producer actually means:

- a. A dollar will buy more farm assets in the future than the dollar can actually purchase today.
- b. Increases in market prices for farm commodities will eventually equal the inflation rate.
- c. The farm producer's profit margin will increase over time due to higher inflationary prices.
- d. The purchasing power of the dollar for acquiring farm assets will be declining over time.
- e. The market value of farm assets (especially real estate) will be deflating over time.

38. If the U.S. wheat industry has an inelastic market demand curve, an actual reduction in the total amount (market supply) of wheat being produced and supplied to the market by wheat producers would result in:

- a. An increase in the total sales revenues to wheat producers in the wheat industry.
- b. Having no effect on total sales revenues to wheat producers in the wheat industry.
- c. A decrease the total sales revenues to wheat producers in the wheat industry.
- d. A large increase in the market demand for wheat by flour processing firms in the wheat industry.
- e. A sharp decrease in the market demand for corn production caused by the wheat industry.

39. A farmer traded a tractor with a current book value of \$25,000 for a new tractor. The new tractor had a list price of \$115,000. The dealer allowed a \$40,000 trade in allowance on the old tractor traded. The farmer paid \$30,000 cash and borrowed \$45,000 to pay the balance. What is the tax (depreciable) basis of the new tractor?

- a. \$115,000    b. \$75,000    c. \$100,000    d. \$85,000    e. \$90,000

**Questions (40-44)** A cattle feeder owns a large cattle feedlot operation. A major feedlot expense for this cattle feeding enterprise is buying corn from the local co-op elevator. The cattle feeder is worried that spring rains have delayed corn planting and will force current corn prices upward in the future. Therefore, he buys twenty 10,000 bushel corn futures contracts at \$3.15 per bushel on the Chicago Board of Trade.

40. By taking this action did the cattle feeder reduce the potential risk of a corn price increase?

- a. Yes, his potential price risk is reduced by buying corn futures contracts.
- b. No, he should have sold corn futures contracts for the feedlot operation.
- c. Futures contracts actually offer no protection against price changes for a commodity.
- d. No, the position he took (buying contracts) has risk itself since he does not produce corn.
- e. Yes, but the cattle feeder should have sold corn futures contracts to reduce price risk.

A few months pass and the cattle feeder now needs corn so he buys 200,000 bushels of corn from the local grain elevator for \$3.05 and then closes his futures contracts at \$3.35 per bushel.

41. The "basis" on corn at this time is:

- a. \$3.05
- b. \$3.35
- c. \$3.15
- d. \$.30
- e. \$.20

42. How much did the cattle feeder make (or lose) on the futures market if commission costs totaled \$6000?

- a. \$54,000
- b. \$34,000
- c. \$14,000
- d. (\$6000)
- e. (\$14,000)

43. The cattle feeder's final net price paid for the corn was:

- a. \$3.08
- b. \$3.15
- c. \$3.25
- d. \$3.05
- e. \$2.88

44. What risks did the farmer still face when he bought the futures contracts?

- a. The risk he would have to deliver corn to the Chicago Board of Trade.
- b. The risk of having to accept delivery from the Chicago Board of Trade.
- c. The risk that the basis would change for his futures contracts.
- d. The risk that the Chicago Board of Trade will not pay him the money it owes him.
- e. The risk that economic factors (high expenses, low corn supply) will push the corn price up further.

45. On November 1, the local grain elevator was paying a market price of \$3.55 for corn. Carl Corngrower is deciding whether to sell his corn crop at harvest (November 1) or store it to try getting a better price later (sell in mid-March). The opportunity cost for corn storage (farm storing cost and insurance) are 8 cents per bushel per month. What price would the grain elevator need to be paying on March 15 for Carl to break even storing his corn until mid-March rather than selling at harvest?

- a. \$3.63
- b. \$3.75
- c. \$3.83
- d. \$3.91
- e. \$3.95

46. If the market price for a food product increases:

- a. The market demand curve for this food product will become more elastic.
- b. The quantity demanded by consumers for this food product will decrease.
- c. The sales revenue generated for this food product will remain the same.
- d. The quantity supplied by farm producers for this food product will decrease.
- e. The market supply curve for this food product will become more inelastic.

47. Penny Pigtail plans to purchase 5000 feeder pigs (30 lbs. purchase weight) which will be sold at a market selling weight of 250 lbs. per head. The current purchase price for feeder pigs is \$50 per head. Overhead hog product costs total \$45,000 for Penny's hog feeding operation. Feed costs are \$66 per feeder pig while nonfeed costs average \$12 per feeder pig. What selling price per pound for market hogs is needed to breakeven?

- a. \$.35
- b. \$.51
- c. \$.58
- d. \$.55
- e. \$.63

48. Which of the following is not a factor in how grain elevators set their prices being paid for grain?

- a. The amount of grain storage space currently available to the elevator.
- b. The target profit per bushel projected by the grain elevator manager.
- c. Amount of money the grain elevator is earning on its futures contracts.
- d. What their competition (other grain elevators) is currently paying for grain.
- e. The elevator's transportation costs for delivering grain to their terminal markets.

49. The carrying costs for grain being held in farm storage would include which of the following:

- a. The amount of money it actually costs to store grain on the farm.
- b. The opportunity cost of selling grain to the market.
- c. The opportunity cost of not selling grain to the market.
- d. Both a and b must be considered to determine carrying costs.
- e. Both a and c must be considered to determine carrying costs.

50. Which one of the following statements is true (correctly stated)?

- a. Macroeconomics analyzes one specific business sector of the U.S. economy.
- b. A economic recession benefits our U.S. economy in terms of less unemployment.
- c. Generating a double digit rate of inflation is a desirable goal for our U.S. economy.
- d. A study of microeconomics would cover the entire aggregate U.S. economy.
- e. None of the above statements are correctly stated.

51. To continue produce in the short run, a farm producer must cover which production costs?

- a. Variable Costs.
- b. Fixed Costs.
- c. Total Production Costs.
- d. Overhead Costs.
- e. Opportunity Costs.

52. Assume market supply by producers remains constant, an increase in market demand by consumers will:

- a. Decrease both the market equilibrium price and the market equilibrium quantity.
- b. Increase the market equilibrium price and decrease the market equilibrium quantity.
- c. Decrease the market equilibrium price and increase the market equilibrium quantity.
- d. Increase both the market equilibrium price and the market equilibrium quantity.
- e. Have no effect on the market equilibrium price and the market equilibrium quantity.

53. A business firm would be considered a monopoly when:

- a. Relatively very few firms make up the entire industry.
- b. The firm's product is unique and similar to other products in the market.
- c. No other firms can enter the industry to compete with this firm.
- d. All of the above (a, b, and c) are characteristics of a monopoly.
- e. Only b and c above are characteristics of a monopoly.

54. At the start of 2015, the average market value of farmland was the highest in what region of Nebraska?

- a. Northwest.
- b. Northeast.
- c. Central.
- d. Southwest.
- e. East.

55. If you own the following land tract  $N\frac{1}{2} NE\frac{1}{4} NW\frac{1}{4}$  in Section 3, how many acres would you own?

- a. 20 acres
- b. 160 acres
- c. 40 acres
- d. 10 acres
- e. 80 acres

56. Depreciation expense for a new tractor is \$15,000 per year. The new tractor was used a total of 500 hours during the past year with 350 hours used for corn production, 100 hours used for soybean production, and 50 hours used for hay production. How much of the tractor depreciation expense should be allocated to the corn enterprise if hours used determine the allocation?

- a. \$15,000
- b. \$10,500
- c. \$4,500
- d. \$3,000
- e. \$0

**(Questions 57-58)** Assume a farm business has Current Assets worth \$250,000, Intermediate Assets worth \$400,000, and Long Term Assets worth \$900,000. The farm also has Current Liabilities listed at \$160,000, Intermediate Liabilities listed at \$220,000, and Long Term Liabilities listed at \$300,000.

57. This farm would have a Leverage Ratio of:

- a. .44      b. .64      c. .78      d. .56      e. 1.28

58. This farm would have a Net Capital Ratio of:

- a. 1.78      b. 2.28      c. 3.00      d. 1.28      e. .44

59. When analyzing a farm business operation, a Cash Flow Budget offers the following advantages except:

- a. Determines when the farm business needs to borrow money during the year.
- b. Shows how the cash income of the farm business is being spent for what use during the year.
- c. When the farm business can increase its cash spending (purchases) without additional borrowing.
- d. Demonstrates when the farm business is able to pay loan payments.
- e. All of the above are appropriate advantages for using a Cash Flow Budget.

60. Which of the following is a correct characteristic describing the use of a Partial Budget?

- a. A Partial Budget analyzes how a change in a certain farm enterprise affects the farm operation's profits.
- b. A Partial Budget measures every return and cost change, whether increased, decreased, or stays the same.
- c. A Partial Budget demonstrates the effect that various prices, yields, and costs have on the farm's equity.
- d. A Partial Budget determines the loan repayment capacity of a farm business for next year.
- e. A Partial Budget projects the operating credit needs of the farm business operation.

**(Questions 61-63)** Use the following Present and Future Values Table to answer questions 61 to 63.

Years	Present Value of \$1	Future Value of \$1
1	\$ .926	\$1.080
2	\$ .857	\$1.166
3	\$ .794	\$1.260

61. If you receive \$20,000 one year from now and then receive an additional payment of \$100,000 three years from now, what would this total amount received (\$120,000) all actually be worth to you today?

- a. \$129,600      b. \$95,280      c. \$111,120      d. \$97,920      e. \$99,400

62. If you have \$25,000 today, what would this amount be worth to you two years from now?

- a. \$31,500      b. \$29,150      c. \$27,000      d. \$25,000      e. \$21,425

63. You currently have \$15,000 today. You will also be receiving a payment of \$10,000 once a year for each of the next three years. What is the present value of this total income amount being received for this three year period?

- a. \$39,660      b. \$25,770      c. \$35,060      d. \$40,770      e. \$50,060

64. The U.S. dollar is strong (risen in value) versus other foreign currencies in the world market. What is now the outlook U.S. agricultural trade (exports and imports) with other foreign nations during times of a stronger U.S. dollar?

- a. Exports from the U.S.A. will decrease while imports to the U.S.A. will increase.
- b. Imports to the U.S.A. will decrease while exports from the U.S.A. will increase.
- c. There will be no expected change in agricultural trade since international prices remain unchanged.
- d. Exports from the U.S.A. will increase with no expected change in imports to the U.S.A.
- e. Imports to the U.S.A. will increase with no expected change in exports from the U.S.A.

**(Questions 65-68)** A south western Nebraska farmer expects to have 20,000 bushels of wheat ready for sale June 25. He believes that wheat prices are high so he sets a hedge on the July Wheat Futures at \$5.86. Normal basis for his area in June is \$.25 under the July.

65. What should this farm producer do in the futures market?

- a. Sell July wheat futures contract.
- b. Buy July wheat futures contract.
- c. Sell a put option on July wheat.
- d. Buy a call option on July wheat.
- e. Sell the wheat unhedged as planned.

66. What net price per bushel does he expect to receive for his wheat (ignoring commissions)?

- a. \$5.86
- b. \$6.11
- c. \$0.25
- d. \$5.61
- e. \$6.05

67. On June 25, the farmer sells his wheat to the local elevator at \$5.15 and closes his futures contracts at \$5.44. His true net price received was:

- a. \$5.15
- b. \$5.44
- c. \$5.57
- d. \$5.61
- e. \$5.86

68. If the farmer sells his wheat to the local elevator on June 25 for \$5.15 and closes his futures contracts at \$5.44, we would say the basis is:

- a. The same as normal.
- b. Wider than normal.
- c. Narrower than normal.
- d. Actually zero.
- e. The inverse of what was expected.

69. A farmer producing soybeans hedged his entire crop today with November futures at \$7.10 and signed a basis contract for \$.30 under the November. In late October, due to a large crop, November futures are at \$6.66 and the local elevator is paying \$6.22 per bushel. How much more would the farmer who hedged make per bushel than the farmer who simply sold on the cash market at harvest.

- a. \$.88
- b. \$.74
- c. \$.58
- d. \$.44
- e. \$.30

70. A farmland rental (lease) arrangement which carries the least amount of risk for a tenant operator is a:

- a. Cash Rent lease
- b. Gross Sales lease
- c. Bushel Rent lease
- d. Guaranteed Income lease
- e. Crop Share lease

71. Which one of the following items cannot be depreciated by a farm business for federal income tax reporting purposes?

- a. Raised replacement beef heifers for breeding.
- b. A farm storage building constructed by the farm owner.
- c. A used tractor purchased from a local farm neighbor.
- e. A new pick-up purchased during a dealer truck clearance sale.
- c. Bred gilts bought at a livestock auction sale.

**(Questions 72-73)** According to its 2015 Income Statement, a farming operation had total cash operating expenses of \$277,000. The farming operation had a Beginning Year Inventory value (1/1/2015) of \$249,000 and an Ending Year Inventory value (12/31/2015) of \$267,000. Gross farm income totaled \$638,000 for the past year 2015 from crop and livestock sales. During 2015 the farm received \$62,000 from government farm program payments and also \$11,000 cash from their co-op patronage cash refund. Farm depreciation expense for 2015 was \$51,000. Purchased feed expense was \$44,000 where as the cost of purchased feeding livestock was \$176,000. An older combine was sold for cash during 2015 which earned the farm a capital gain of \$15,000. The farm family living expenses were \$47,000 for 2015. The farm paid \$35,000 for income taxes in 2015.

72. What was the Value of Farm Production that this farming operation earned during the past year 2015?

- a. \$436,000
- b. \$509,000
- c. \$693,000
- d. \$711,000
- e. \$729,000

73. What was the Net Farm Income that this farming operation earned during the past year 2015?

- a. \$114,000
- b. \$160,000
- c. \$166,000
- d. \$196,000
- e. \$247,000

74. Which of the following would not be listed as a source of income earnings on the Income Statement for a farming operation?

- a. Money received from a bank loan to purchase beginning year farm inventory supplies.
- b. A cash patronage dividend received from the local farm cooperative.
- c. Custom farm work earnings paid to the farm operator.
- d. A Conservation Reserve Program farmland payment received from the government.
- e. All of the above items should be listed on the farm's Income Statement.

75. A good father-son/daughter farming operation partnership should be structured to accomplish which one of the following objectives:

- a. Assist the son/daughter in acquiring sufficient assets to get started and to build their own equity capital.
- b. Allow the father to manage the operation while the son/daughter perform the physical farm work.
- c. Allow the son/daughter to gain the profits of the business while the father covers any potential losses.
- d. Permits the father to be the boss until he retires or dies, then allowing the son/daughter to take over control.
- e. Keep the son/daughter on the farm operation even during times of depressed farm income to the family.

76. In a year of exceptionally high farm income earnings, which one of the following tax management strategies would be most appropriate in order for a farm owner to reduce the cash basis income tax liability for the farm operation?

- a. Sell a parcel of farmland for the needed extra cash to cover the increase in income taxes.
- b. Purchase an additional parcel of farmland to gain some additional land depreciation expense.
- c. Buy a new ski boat for the family in order to increase family living withdrawals from the farm business.
- d. Purchase next year's tractor fuel as a pre-paid farm expense to the farm business for this year.
- e. Sell a portion of the current farm inventories to reduce the value of Ending Year Inventory accounts.

**(Questions 77-78)** Farmer Bushels borrowed \$300,000 on a Farm Credit mortgage on May 1, 2011. Annual principal payments are \$20,000 and the current interest rate is 9% on the mortgage. Annual mortgage payments are due May 1st each year with the first payment being made on May 1, 2012.

77. How much accrued interest would Farmer Bushels list on his Balance Sheet (dated 12/31/2015) for his Farm Credit mortgage?

- a. \$14,400
- b. \$13,200
- c. \$19,800
- d. \$12,000
- e. \$20,000

78. When Farmer Bushels makes his next mortgage payment to Farm Credit on May 1, 2016, what will be the amount of his total payment (principal plus interest) that will be due?

- a. \$39,800
- b. \$41,600
- c. \$33,200
- d. \$38,000
- e. \$20,000

79. All of the following are advantages of a Cash Rent Lease to the tenant except:

- a. Opportunity to manage the farm without landlord supervision (i.e. most freedom).
- b. Gain full benefit of yield increasing technology or management practice.
- c. Still free to own and operate tenant's own livestock program.
- d. Less cash reserve required than by a Crop-Share lease.
- e. Chance to gain additional profits during times of high prices and/or good yields.

80. Assume a farm has a Leverage Ratio of 1.20 and Total Liabilities of \$480,000. What is the value of Total Assets invested in this farm?

- a. \$880,000
- b. \$576,000
- c. \$400,000
- d. \$970,000
- e. \$480,000

81. Which one of the following statements is true (correct stated)?

- a. Corporations (regular) are subject to double taxation.
- b. Farm partnerships must be created with a written agreement that must be renewed each year.
- c. Corporate shareholders are responsible for the management of a corporation while the directors are responsible for the operation of business.
- d. All shareholders in any farm corporation have equal management rights.
- e. All of these statements (a, b, c, d) are incorrect.

82. All of the following are possible advantages of incorporating the family farm into a Farm Corporation except:

- a. Provides for continuity of operation in the farm business.
- b. Shareholders have limited personal liability for the farm business.
- c. Easy distribution and transfer of farm property ownership.
- d. Fringe benefits to farm employees are a tax deductible farm expense.
- e. All of the above are advantages (a, b, c, d) for farm incorporation.

83. Assume a farm has a Net Capital Ratio of 3.20. Which of the following statements is not correct?

- a. For every one dollar (\$1) of debt (TL) in this farm business, there are \$2.20 of farm assets.
- b. The farm's Equity to Asset Ratio would be .69.
- c. The farm is in a solvent financial position.
- d. The farm's Debt to Asset Ratio would be .31.
- e. The Leverage Ratio for this farm would be .45.

84. The ability of the farm business to generate the cash dollars necessary to repay unpaid farm expenses and meet loan payments as they come due during the next year refers to the financial management concept of \_\_\_\_\_?

- a. Equity
- b. Liquidity
- c. Repayability
- d. Solvency
- e. Profitability

85. Which of the following is a use or function of the Cash Flow Budget?

- a. Shows the flow of cash income/cash expenses for the farm during the next year.
- b. Shows the operating loan payments paid during the past year by the farm.
- c. Shows the expected change in farm inventories for the next year.
- d. Shows the change in net farm income generated by the farm during the current year.
- e. Shows the increase in the earned equity capital invested in the farm business.

86. Which one of the following statements is NOT correct?

- a. Income earnings by a farm family partnership are subject to double taxation by IRS.
- b. All owners of farm partnership have equal management rights in the farm business.
- c. A corporation can only be formed/dissolved by a strict legal process.
- d. A major disadvantage of any partnership is that it can be terminated at any point in time by any partner.
- e. A farm corporation offers limited liability protection to its corporate shareholders.

87. Yearling steers can be purchased at \$96 per cwt. (600 lbs. purchase weight) and later can be sold at \$82 per cwt. (1100 lbs. selling weight). Feed costs average \$36 per 100 lbs. gain in weight. The total Price Spread and total Feeding Margin per steer would be \$\_\_\_\_\_ and \$\_\_\_\_\_ respectively.

- a. -\$84 and +\$276
- b. -\$96 and +\$180
- c. -\$84 and +\$230
- d. -\$82 and +\$180
- e. -\$96 and +\$230

88. All of the following are possible advantages of forming a Farm Partnership (general) except:

- a. Equal management rights among partners.
- b. Frequent means to bring a son or daughter into the farm operation.
- c. Usually able to reduce farm income taxes among individual partners.
- d. Limited personal liability for the farm business to each partner.
- e. All of these (A, B, C, D) are advantages.

89. Which of the following is a major advantage for a tenant to use a Bushel Rent Lease (flexible cash rent per acre) when renting farmland from a landlord?

- a. The landlord now shares in all price risks.
- b. The landlord is now more willing to make needed farm improvements.
- c. The landlord must share in all crop production risks.
- d. The landlord takes a more active role in management decisions for the farm.
- e. The landlord is required to pay a larger share of the farm's cash expenses.

90. If a farming operation has a Current Ratio of .82, this means that:

- a. The farm business itself is currently in an insolvent financial position.
- b. There is 82¢ of current liabilities for every \$1.00 of total debt (TL) in the business.
- c. The change in the ending year farm inventory will be negative.
- d. The farm does not have enough current assets to repay its current debts as they come due next year.
- e. Each dollar of gross farm income required 82¢ of farm expense to produce it.

91. Which one of these statements is NOT correct?

- a. The Cash Flow Budget is best used to project the operating credit needs and loan repayability for a farming operation for the next year.
- b. Solvency measures the ability of the farm business to repay all its debts if ever forced to liquidate (sell out).
- c. An Income Statement must be completed on an accrual basis is used to measure the Net Farm Income (true profit) earned by a farming or ranching business operation.
- d. A Balance Sheet measures the annual change in net worth earned by a farm business during the past calendar year (January 31<sup>st</sup> to December 31<sup>st</sup>).
- e. The Current Debt Ratio best measures the actual debt structure of a farming operation.

92. Assume a rancher purchased protein supplement (cost of \$11,200) on November 10, 2015 for his feeder calf enterprise and the bill is still unpaid at the end of the year (12/31/2015). Which entry on the financial statements for this ranching operation would be correct for handling this \$11,200 unpaid account for the protein purchase?

- a. Cash Operating Expense projected (to be paid) on the farm's 2016 Cash Flow.
- b. Intermediate Liability listed on the farm's Balance Sheet dated 12/31/2015.
- c. Beginning year inventory item for accounts payable on the farm's 2015 Income Statement.
- d. Prepaid expense (Current Asset) listed on the farm's Balance Sheet dated 12/31/2015.
- e. All of the answers (a, b, c, d) would be correct entries for the farm's financial statements.

93. Which one of the following farm financial ratios best measures the trend for the overall financial progress of a farm business operation?

- a. Leverage Ratio
- b. Equity to Asset Ratio
- c. Return on Investment Ratio
- d. Debt Servicing Ratio
- e. Current Debt Ratio

**NEBRASKA STATE FFA FARM BUSINESS CAREER DEVELOPMENT CONTEST  
ANSWER KEY**

- |       |       |       |
|-------|-------|-------|
| 1. A  | 32. C | 63. D |
| 2. C  | 33. D | 64. A |
| 3. A  | 34. C | 65. A |
| 4. C  | 35. D | 66. D |
| 5. E  | 36. E | 67. C |
| 6. B  | 37. D | 68. B |
| 7. B  | 38. A | 69. C |
| 8. C  | 39. C | 70. E |
| 9. D  | 40. A | 71. A |
| 10. B | 41. D | 72. B |
| 11. B | 42. B | 73. D |
| 12. A | 43. E | 74. A |
| 13. B | 44. C | 75. A |
| 14. D | 45. D | 76. D |
| 15. C | 46. B | 77. B |
| 16. E | 47. D | 78. A |
| 17. D | 48. C | 79. D |
| 18. C | 49. E | 80. A |
| 19. B | 50. E | 81. A |
| 20. E | 51. A | 82. E |
| 21. C | 52. D | 83. A |
| 22. E | 53. C | 84. B |
| 23. C | 54. E | 85. A |
| 24. B | 55. A | 86. A |
| 25. D | 56. B | 87. C |
| 26. E | 57. C | 88. D |
| 27. A | 58. B | 89. A |
| 28. B | 59. E | 90. D |
| 29. C | 60. A | 91. D |
| 30. D | 61. D | 92. A |
| 31. D | 62. B | 93. B |