PART I. Multiple Choice. Indicate the best answer. (3 points each)

1. An important component of business management is development of a mission statement. A mission statement:
   a. outlines all of your detailed crop production plans such as level of fertilizer to use, etc.
   b. is a short statement of why the business exists.
   c. can only be established after you have established your goals.
   d. can only be established after you have selected enterprises for the farm.
   e. All the above.
   f. a and b above relate to a mission statement.

2. In lab 1 you looked at strategic management and tactical management. Examples of tactical management would be:
   a. determining the acres of corn to produce next year.
   b. charting the overall long term course of the business.
   c. determining the number of replacement dairy heifers needed.
   d. determining if you will cash rent the neighboring 80 acres next year.
   e. a, c, and d above.

3. An example of a supplementary goal (relationship) would be:
   a. you have 300 acres of cropland and if you raise more alfalfa you have more nitrogen in the soil also.
   b. you have $200,000 of capital (money) available and if you buy some equipment you cannot expand the cattle feeding operation.
   c. you have 3,500 hours of labor available and if you use more in livestock production you need to cut back on crop production.
   d. All the above are examples of a supplementary relationship.
   e. None of the above is examples of a supplementary relationship.

4. Steps to decision making would include:
   a. define the problem.
   b. identify alternatives.
   c. implement the decision.
   d. evaluate the outcome over time.
   e. All the above are steps to decision making.

5. At the beginning of the semester we talked about the three C’s. These were:
   a. communication, customer’s satisfaction, critical analysis.
   b. coordination, consumer impact, communication.
   c. communication, coordination, cash flow.
   d. communication, consumption, cooperation.
   e. None of the above.

6. We discussed the aspect of establishing S.M.A.R.T. goals. Examples of S.M.A.R.T. goals would include:
   a. specific, time constrained, much improved.
   b. measurable, all improved, realistic.
   c. realistic, measurable, total family involved.
   d. routine, measurable, specific.
   e. All of the above fit S.M.A.R.T. goals we discussed.
   f. None of the above fit S.M.A.R.T. goals we discussed.
7. Which of the following best describes a “particular” profit and loss statement?
   a. It shows your change in asset values over the last accounting period.
   b. It shows how you changed the value of your assets over a period of time.
   c. It shows assets and liabilities at a point in time.
   d. It shows business change in liabilities for the last accounting period.
   ④ None of the above describes a “particular” profit and loss statement.

8. Types of decisions you would make in a farm business setting would include:
   a. repair versus replace the equipment
   b. are you going to rent the neighboring farm operation?
   c. how are you going to market your crops produced?
   d. what livestock health management strategies to use?
   e. types of crops to produce.
   ⑤ All of the above.

9. The degree to which a business’ current assets adequately cover or exceed the current liabilities is referred to as:
   a. bankruptcy.
   b. solvency.
   c. profitability.
   d. net worth.
   ⑥ liquidity.
   f. None of the above.

10. You prepare a balance sheet on December 31 of each year. An accrued expense on the balance sheet is one where:
    a. it shows the amount of interest you paid this year for a loan which was due last year.
    ⑥ it represents the amount of interest that has built up on a loan since the last loan payment was made.
    c. you missed accounting for the amount of interest last year so you include it this year.
    d. it reflects the total cash interest you paid on a loan this year.
    e. None of the above.

11. Which of the following is an example of a current liability for you?
    a. Total liability on a 20 year farm loan.
    b. Total liability on an 6 year building loan.
    c. Value of land.
    d. The money your neighbor owes you for a 4-H steer she purchased.
    ⑥ None of the above.

12. Which of the following would appear on a particular balance sheet?
    a. Interest payments for land purchases.
    b. The value of hogs you sold out of inventory.
    c. The principal payment you made on the machinery loan.
    d. The value of sheep you sold.
    ⑤ The value of livestock you have in inventory.

13. We talked about some components of farm business management. These could include:
    a. family goals and business goals.
    b. records and/or budgets.
    c. risk/government programs.
    d. factors of production.
    ⑥ All of the above.
    f. None of the above.
14. In preparing a balance sheet it is necessary to place a value on your assets. Methods for asset evaluation would include:
   a. purchase cost, cost less depreciation, two times the market value.
   b. cost less depreciation, purchase cost, the value your neighbor uses.
   c. income capitalization, cost less depreciation, one half the purchase cost.
   d. replacement cost less depreciation, purchase cost, net market price.
   e. b and d above.

The next five questions (15-19) are based on the following information for Clone Acres Farm Records.
Net Farm Income $35,000
Intermediate and Fixed liabilities $300,000
Total liabilities $350,000
Current assets $100,000
Total assets $500,000

15. What is Clone's current ratio? (As calculated for Twin Pine Farm in class and in the text.)
   a. .33
   b. 2.0
   c. 1.67
   d. 4.0
   e. None of the above.

16. What is Clone's level of intermediate and fixed (long term) assets?
   a. $500,000
   b. $350,000
   c. $100,000
   d. $400,000
   e. $150,000
   f. Can't determine with information provided.

17. Is Clone solvent?
   a. Yes
   b. No
   c. Can't determine with the information provided.

18. What is Clone's equity to asset (net worth) ratio?
   a. .30
   b. .40
   c. .7
   d. 1.25
   e. 2.00
   f. None of the above.

19. What is Clone's debt-to-asset (debt/asset) ratio?
   a. 1.43
   b. .55
   c. .60
   d. .70
   e. None of the above.
20. The prime purpose of records should be:
   a. that they are complex and detailed enough that everything will be in the record system.
   b. to help you in locating the strong and weak points of the business.
   c. to position you where you can tell your landlord that you have records.
   d. to satisfy the Internal Revenue Service on your taxes.
   e. to be able to show your neighbor how well you did.

21. If a business has a current ratio which is greater than one (the way it was discussed in class):
   a. current debt exceed current assets.
   b. liabilities exceed assets.
   c. the working capital is positive.
   d. equity exceeds debt.
   e. current liabilities exceed current assets.

22. When evaluating the solvency of a farm business which is applying for a loan, a lender would be most likely to look at:
   a. the level of all assets and all liabilities.
   b. the net cash farm income of the farm business.
   c. the level of current liabilities and current assets.
   d. if the value for soybeans in storage was reasonable.
   e. your liquidity.

23. Reasons why you would keep records would include:
   a. a basis for comparison with how you have done over time.
   b. a basis for comparison with similar types of farming operations.
   c. a basis for comparison with your goals.
   d. record results can be used for planning for the future.
   e. All are reasons for keeping records.

**The next three questions (24-26) are based on the following information.** Your neighbor “Hawkeye Hotfeet” has purchased a tractor for his crop operation. He heard that you were in Econ 330 and that depreciation methods had been discussed. Being a “Hawkeye” he had never heard of depreciation or any other business thing. Moreover, he didn’t know the Cyclones beat both the Hawkeye women and men in basketball. He was wondering how much depreciation he would calculate for his business records. He gave the following information on the tractor.

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase price</td>
<td>$80,000</td>
</tr>
<tr>
<td>Years of useful life</td>
<td>5 years</td>
</tr>
<tr>
<td>Salvage value</td>
<td>$35,000</td>
</tr>
<tr>
<td>Purchase date</td>
<td>January 1</td>
</tr>
</tbody>
</table>

24. What is the amount of depreciation “Hawkeye Hotfeet” would claim in the third year using the straight line method of depreciation?
   a. $9,000
   b. $4,500
   c. $16,000
   d. There is not any depreciation remaining for year 6.
   e. None of the above.
25. What is the amount of declining balance depreciation "Hawkeye Hotfeet" would claim in the second year using the double declining balance method of depreciation?
   a. $32,000
   b. $13,000  
   c. $19,200
   d. $40,000
   e. None of the above.

26. What is the amount of depreciation "Hawkeye Hotfeet" would claim in the first year using the sum-of-the-years-digits method?
   a. $18,000
   b. $32,000
   c. $26,667
   d. $15,000
   e. $8,000
   f. None of the above.

The next four questions (27-29) are based on the following information. Your neighbor "Clone Jr" would like to pull together some information for a Net Farm Income Statement. She has the following information.

<table>
<thead>
<tr>
<th>Cash farm income</th>
<th>$300,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning Inventory Crops in Storage</td>
<td>$70,000</td>
</tr>
<tr>
<td>Ending Inventory Crops in Storage</td>
<td>$60,000</td>
</tr>
<tr>
<td>Cash farm expenses</td>
<td>$280,000</td>
</tr>
<tr>
<td>Beginning Inventory Market Livestock</td>
<td>$80,000</td>
</tr>
<tr>
<td>Ending Inventory Market Livestock</td>
<td>$85,000</td>
</tr>
</tbody>
</table>

27. What is the Net Farm Income from operations for "Clone Jr"?
   a. $-5,000
   b. $20,000
   c. $10,000
   d. $15,000
   e. None of the above.

28. What is the Cash Net Farm Income for "Clone Jr"?
   a. $300,000
   b. $280,000
   c. $15,000
   d. $20,000
   e. None of the above.
29. How much did "Clone Jr's" inventory of market livestock change during the year?
   a. Increased by $5,000.
   b. Decreased by $5,000.
   c. Decreased by $80,000.
   d. Increased by $85,000.
   e. None of the above.

30. If "Clone Jr's" net farm income from operations was $40,000 (not the correct answer) before the following inventory adjustments, what would be "Clone Jr's" net farm income from operations be after the inventory adjustments? (Note: This is not related to the information above, only consider this information.)
   Prepaid expenses end of the year $10,000
   Prepaid expenses beginning of the year $9,000
   Accounts receivable end of the year $8,000
   Accounts receivable beginning of the year $6,000
   a. $37,000
   b. $43,000
   c. $41,000
   d. $39,000
   e. $40,000
   f. None of the above.

The following information is for the following three questions (31-33).
"Herkey Hawkeye" is thinking about growing some corn next year. As usual, "Herkey" has no idea what is going on. "Herkey" does get one thing right - that is to ask a "Cyclone" what to do. You help "Herkey Hawkeye" pull together the following information. The corn production information on "Cy's" farm, which "Herkey" will cash rent until the Hawkeyes beat the Cyclones in basketball (This is likely to be a real long lease!!!). The cash rent contract also indicates that the cash rent will increase by $40.00 per acre per year. You are surprised "Herkey" would sign such a contract but again "Herkey" has no idea what is going on.

<table>
<thead>
<tr>
<th>Pounds of Nitrogen/Per Acre</th>
<th>Bushels of Corn/Per Acre</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td>20</td>
<td>120</td>
</tr>
<tr>
<td>40</td>
<td>130</td>
</tr>
<tr>
<td>60</td>
<td>135</td>
</tr>
<tr>
<td>80</td>
<td>138</td>
</tr>
<tr>
<td>100</td>
<td>140</td>
</tr>
<tr>
<td>120</td>
<td>141</td>
</tr>
<tr>
<td>140</td>
<td>135</td>
</tr>
</tbody>
</table>

31. If the cost of nitrogen is 20 cents per pound and the corn price is $2.20 per bushel, how much nitrogen should "Herkey" apply to maximize profits?
   a. 40 pounds.
   b. 60 pounds.
   c. 80 pounds.
   d. 100 pounds.
   e. 120 pounds.
   f. 140 pounds.
32. What is the value of the increased corn yield for the 20 pounds of nitrogen as “Herkey” moves from 60 to 80 pounds of nitrogen? (The corn price is $2.20 per bushel).
   a. $297.00
   b. $11.00
   c. $72.00
   d. $6.60
   e. None of the above.

33. How high would the cost of nitrogen need to get before “Herkey” would not apply more than 60 pounds of nitrogen per acre. (The price of corn is $2.20 per bushel).
   a. “Herkey” should never apply more than 60 pounds of nitrogen even if it is free.
   b. At 55 cents per pound “Herkey” should apply 60 pounds.
   c. At 33 cents per pound “Herkey” should apply 60 pounds.
   d. “Herkey” should go to 60 pounds with the price at $1.10 cents per pound.

Part II. Bonus (2 points)

How do you spell the last name of the instructor of this class?

Kliebenstein

The old sage says:

There are two theories to arguing with the opposite gender. Neither one works.

Contentment is not the fulfillment of what you want, but the realization of what you already have.