Circle the best answer. You may put a square around your second choice, for half credit. (4 points each)

1. Which of these is an example of a current asset?
   a. 640 acres of farmland
   b. a Holstein dairy cow
   c. an operating loan due in 6 months
   d. 50 bags of seed corn ready to be planted

2. A commonly used measure of liquidity is:
   a. the debt-to-asset ratio
   b. the working capital value
   c. the % return on assets
   d. accrual net farm income

3. In double-entry accounting:
   a. both income and expenses, and changes in assets and liabilities, are recorded as they occur
   b. a new inventory must be taken whenever an up-to-date net worth statement is needed
   c. income and expenses are recorded for both the whole farm and the appropriate enterprise
   d. only cash transactions are recorded

4. Which financial statement explains how net worth changed from the beginning of the year to the end of the year?
   a. net income
   b. net worth
   c. cash flows
   d. owner equity

5. Enterprise accounting records are most useful when they are summarized:
   a. over the same accounting year as the whole farm
   b. from the first expense to the last sale for a given production cycle
   c. monthly
   d. by the calendar year

6. Which of the following accrual adjustments will affect gross farm revenue?
   a. change in inventory of market livestock
   b. change in prepaid expenses
   c. change in accounts payable
   d. all of them

7. A farm machinery loan repayable in five annual payments of principal and interest should be shown on a net worth statement as:
   a. a current liability
   b. a fixed (or intermediate) liability
   c. both
   d. neither
8. A farmer has forward contracted 10,000 bushels for corn for sale on March 1 at $2.40 per bushel. On January 1 the local cash price is only $2.00 per bushel. On a January 1 net worth statement the corn should be valued at:
   a. $2.40
   b. $2.00
   c. $2.20
   d. $.40

9. The most common reason why farmers keep records of income and expenses is:
   a. for preparing loan applications
   b. to inform partners or landlords
   c. to provide data for future budgets
   d. to prepare income tax returns

10. IRS Schedule F is used to calculate the amount of farm income subject to all of the following types of taxes except:
    a. capital gains
    b. self-employment
    c. state income
    d. federal income

11. Give one example of each of the following farm business analysis measures. You do not need to give numerical values. (10 points.)

    a. Profitability_____________________________________________________________

    b. Volume of resources_____________________________________________________

    c. Volume of production_____________________________________________________

    d. Physical efficiency_______________________________________________________

    e. Economic efficiency_____________________________________________________
12. A small Midwestern cattle feedlot has the following cattle inventory numbers for 2005.

- **beginning inventory**: 750 head @ 800 pounds
- **ending inventory**: 810 head @ 700 pounds
- **purchases**: 1,150 head @ 600 pounds
- **death loss**: 10 head

They lost their sales records. How many head did they sell in 2005, apparently? 

(4 points.)

__________ head

13. Which code from the chart of accounts below would you assign to each of the following transactions? (10 points.)

<table>
<thead>
<tr>
<th>Code</th>
<th>Category</th>
<th>Cash In</th>
<th>Cash Out</th>
</tr>
</thead>
<tbody>
<tr>
<td>100</td>
<td>Operating</td>
<td>100</td>
<td>600</td>
</tr>
<tr>
<td>200</td>
<td>Investing</td>
<td>200</td>
<td>700</td>
</tr>
<tr>
<td>300</td>
<td>Financing</td>
<td>300</td>
<td>800</td>
</tr>
<tr>
<td>400</td>
<td>Nonfarm</td>
<td>400</td>
<td>900</td>
</tr>
</tbody>
</table>

_______ payment for concrete used for a new livestock building

_______ payment received from the USDA because the price of wheat was low (deficiency payment)

_______ principal portion of a farm mortgage loan payment made

_______ birthday gift received from Aunt Helen of $500

_______ operating loan funds deposited into your account by the bank, to be used for purchase of fertilizer

14. What is the purpose of making accrual adjustments to cash income and cash expenses in a Net Farm Income Statement? (4 points)

15. What does the term “capital assets” mean? Give some examples. (4 points)
16. How would a change in each of the following transactions affect the financial statement measures listed, all else equal? Indicate if each one would increase (+), decrease (-) or not change (0). You do not need to indicate a $ value. (12 points)

(a) hogs were sold for $.50 per pound instead of $.40 per pound
(b) soybeans stored at the end of the year were valued at $5 per bushel instead of $6 per bushel
(c) 10 cows were purchased with a loan from the bank instead of from farm cash on hand
(d) $10,000 was taken out of the farm account to pay for family medical expenses

<table>
<thead>
<tr>
<th>Net Cash Flow</th>
<th>Accrual Net Farm Income</th>
<th>End of Year Market Value Farm Net Worth</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(b)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(c)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(d)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

17. Your preliminary income tax estimate shows your Net Farm Profit will be about $60,000 this year. You have no other taxable income. You are eligible for a standard deduction of $8,000, 5 personal exemptions of $3,000 each, and 3 child tax credits of $1,000. (9 points)

a. How much is your federal taxable income? $______________________

b. How much Federal income tax would you owe, based on the tax rates below?

<table>
<thead>
<tr>
<th>Taxable Income</th>
<th>Marginal Tax Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0 to $15,000</td>
<td>10%</td>
</tr>
<tr>
<td>$15,000 to $25,000</td>
<td>20%</td>
</tr>
<tr>
<td>$25,000 to $50,000</td>
<td>25%</td>
</tr>
<tr>
<td>Over $50,000</td>
<td>30%</td>
</tr>
</tbody>
</table>

$ ___________________

c. List two strategies you could use to postpone taxes for another year, assuming you use the cash accounting method.

1) ___________________

2) ___________________
1. d
2. b
3. a.
4. d.
5. b.
6. a.
7. c.
8. a.
9. d.
10. a.

11. a. Net farm income, return to management.
   b. Acres, head of livestock, total assets.
   c. Head of livestock sold, bushels produced, gross income, value of farm production.
   d. Bushel/acre, lb. of feed/ lb. of gain, lbs. milk/cow/year, calving percentage.
   e. Asset turnover ratio, gross income per person, crop value per acre, livestock returns per $100 feed fed.

12. B. I. + purchases = sales + ending inventory + death loss

\[
\begin{align*}
750 + 1,150 &= \text{sales} + 810 + 10 \\
1,900 - 820 &= 1,080 \\
\end{align*}
\]

1,080 head

13. 700, 100, 800, 400, 300

14. To show the value of production in the year it was produced, and cost of producing it in the year the costs were incurred.

15. Assets that are used to produce other products and which generally last more than one year.

16. | Net Cash Flow | Accrual Net | End of Year Market |
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) +</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>(b)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>(c) +</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(d) -</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

17. a. NFP $60,000

   - Std. deduction 8,000
   - 5 exemptions 15,000
   $37,000

   $37,000

b. First $10,000 @ 10% = $1,000
   Next $10,000 @ 20% = 2,000
   Next $17,000 @ 25% = 4,250
   $7,250

   Minus 3 child credits @ $1,000
   $7,250 – 3,000 = $4,250

   $4,250

c. Postpone sales of grain or livestock, prepay expenses.
   Use accelerated depreciation, pay up all accrued interest.