

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

1. We discussed the aspect of establishing S.M.A.R.T. goals. Examples of S.M.A.R.T. goals would include:
 - a. selective, time constrained, much improved.
 - b. measurable, assisting, routine.
 - c. routine, measurable, time constrained.
 - 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.

2. 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.

3. In lab 1 you looked at strategic management and tactical management. Strategic management is:
 - 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. None of the above is strategic management functions.

4. An example of a competitive goal (relationship) would be:
 - a. You have 300 acres of cropland and if you raise more corn you need to raise less soybeans.
 - 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 competitive relationship.
 - e. None of the above are examples of a competitive relationship.

5. Steps to decision making would include:
 - a. Define the problem.
 - b. Analysis of alternatives.
 - c. Accept the responsibility.
 - d. Evaluate the outcome over time.
 - e. All the above are steps to decision making.

6. At the beginning of the semester we talked about the three C's. These were:
 - a. communication, customer's satisfaction, critical analysis.
 - b. coordination, cooperation, communication.
 - c. communication, coordination, cash flow.
 - d. communication, consumption, cooperation.
 - e. none of the above.

7. Which of the following best describes a “particular” profit and loss statement?
 - a. it shows farm income and expenses you expect for next year.
 - b. it shows the level of loan principle payments you made over a period of time.
 - c. it shows assets and liabilities at a point in time.
 - d. it shows business change in net worth for the last accounting period.
 - e. 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 change the size of the operation.
 - c. types of records to use.
 - d. what livestock health management strategies to use.
 - e. types of crops to produce.
 - f. all of the above.

9. The degree to which a business' total assets adequately cover or exceed the total liabilities is referred to as:
 - a. bankruptcy
 - b. solvency
 - c. profitability
 - d. net worth
 - e. liquidity
 - f. none of the above

10. You prepare a balance sheet on December 31 of each year. An account payable 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.
 - b. it represents an account you paid this year.
 - 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. it represents such things as a feed bill outstanding at the end of the accounting period.

11. Which of the following is an example of an **intermediate term asset**?
 - a. Total liability on a 20 year farm loan.
 - b. Total liability on an 6 year building loan.
 - c. Value of land.
 - d. The value of corn you have in inventory you will feed next year.
 - e. None of the above.

12. Which of the following would appear on a particular balance sheet?
 - a. Principal payments for land purchases.
 - b. The value of grain you sold out of inventory.
 - c. The interest you owe in the land loan.
 - d. The value of corn you sold this past year.
 - e. Value for cattle you will buy next week.

The next seven questions (13-19) are based on the information for the Accrued Income Statement which is provided.

13. What is the debt-to-asset (debt/asset) ratio?
 - a. .695
 - b. .312
 - c. 3.21
 - d. .478
 - e. None of the above.

14. What is the working capital?
 - a. \$707,740
 - b. \$392,003
 - c. \$1,575,273
 - d. \$495,678
 - e. \$429,821
 - f. None of the above.

15. What is the current ratio? (As calculated in the text.)
 - a. 1.926
 - b. 1.769
 - c. 2.242
 - d. 2.725
 - e. None of the above.

16. What is the equity to asset (net worth) ratio? (Use Farm Net Worth)
 - a. .688
 - b. .305
 - c. .522
 - d. .864
 - e. .656
 - f. None of the above.

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

18. If the net farm income for the operation was \$179,800 as shown, and family living expenses withdrawn from the farm was \$79,800, what was the beginning Farm Net Worth?
 - a. \$1,475,273
 - b. \$1,675,273
 - c. \$1,755,073
 - d. \$1,697,573
 - e. None of the above.

19. What is the net cash farm income for the operation?
 - a. \$1,163,863
 - b. \$83,882
 - c. \$166,379
 - d. \$2,575,860
 - e. \$256,979

20. In preparing a balance sheet it is necessary to place a value on your assets. Methods for asset evaluation would include
- purchase cost, cost less depreciation, two times the market value.
 - cost less depreciation, purchase cost, net market price.
 - income capitalization, cost less depreciation, one half the purchase cost.
 - replacement cost less depreciation, purchase cost, the value your neighbor uses.
 - a and c above.
21. Reasons why you would keep records would include:
- a basis for comparison with how you have done over time.
 - a basis for comparison with similar types of farming operations.
 - a basis for comparison with your goals.
 - record results can be used for planning for the future.
 - all are reasons for keeping records.
22. The prime purpose of records should be
- that they are complex and detailed enough that everything will be in the record system.
 - to help you in locating the strong and weak points of the business.
 - to position you where you can tell your landlord that you have records.
 - to satisfy the Internal Revenue Service on your taxes.
 - to be able to show your neighbor how well you did.
23. If a business has a debt-asset ratio which is greater than one (the way it was discussed in class):
- current debt exceed current assets
 - assets exceed liabilities
 - the working capital is positive
 - equity exceeds debt
 - it is insolvent or bankrupt
24. When evaluating the **solvency** of a farm business which is applying for a loan, a lender would be most likely to look at:
- the level of all assets and all liabilities.
 - the net cash farm income of the farm business.
 - the level of current liabilities and current assets.
 - if the value for soybeans in storage was reasonable.
 - your liquidity.

The next three questions (25-27) are based on the following information. Your neighbor "Hawkeye Harvey" has purchased a combine 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. He was wondering how much depreciation he would calculate for his business records. He gave the following information on the combine.

Purchase price	\$150,000
Years of useful life	8 years
Salvage value	\$30,000
Purchase date	January 1

25. What is the amount of depreciation "Hawkeye Harvey" would claim in year 4 using the straight line method of depreciation?
- \$15,000
 - \$18,750
 - \$10,950
 - There is not any depreciation remaining for year 4.
 - None of the above.

26. What is the amount of declining balance depreciation "Hawkeye Harvey" would claim in the second year using the double declining balance method of depreciation?
- \$30,000
 - \$22,500
 - \$15,000
 - \$28,125
 - None of the above.
27. What is the amount of depreciation "Hawkeye Harvey" would claim in the second year using the sum-of-the-years-digits method?
- \$31,675.27
 - \$23,333.33
 - \$29,166.67
 - \$20,978.58
 - \$15,676.13
 - None of the above.

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

Cash farm income	\$215,000
Beginning Inventory Crops in Storage	\$60,000
Ending Inventory Crops in Storage	\$70,000
Cash farm expenses	\$210,000
Beginning Inventory Market Livestock	\$80,000
Ending Inventory Market Livestock	\$75,000

28. How much did "Cy Bernet's" inventory of crops change during the year?
- Increased by \$5,000.
 - Decreased by \$5,000.
 - Decreased by \$80,000.
 - Increased by \$75,000.
 - None of the above.
29. What is the Net Farm Income from operations (Net Farm Income using Iowa Farm Business Farm Management Records) for "Cy Bernet"?
- \$5,000
 - \$15,000
 - \$10,000
 - \$15,000
 - None of the above.

30. If "Cy Bernet's" net farm income from operations was \$20,000 (not the correct answer) before the following inventory adjustments, what would be "Cy Bernet's" net farm income from operations be after the inventory adjustments? (Note: This is not related to the information above, only consider this information.)

Accrued interest end of the year	\$10,000
Accrued interest beginning of the year	\$7,000
Prepaid expenses end of the year	\$6,000
Prepaid expenses beginning of the year	\$5,000

- \$27,000
- \$32,000
- \$28,000
- \$18,000
- \$26,000
- None of the above.

The following information is for the following four questions (31-33).

"Herkey Hawkeye" is thinking about growing some corn next year (2005). 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 football (which will be forever!!! This is starting next year.). The cash rent contract also indicates that the cash rent will increase by \$30.00 per acre per year. You are surprised "Herkey" would sign such a contract but again "Herkey" has no idea what is going on.

Pounds of Nitrogen/Per Acre	Bushels of Corn/Per Acre
0	100
30	120
60	130
90	135
120	138
150	140
180	141
210	135

31. If the cost of nitrogen is 15 cents per pound and the corn price is \$2.10 per bushel, how much nitrogen should "Herkey" apply to maximize profits?
- 60 pounds.
 - 90 pounds
 - 120 pounds
 - 150 pounds
 - 180 pounds
32. What is the value of the increased corn yield for the 30 pounds of nitrogen as "Herkey" moves from 150 to 180 pounds of nitrogen? (The corn price is \$2.10 per bushel).
- \$4.20
 - \$2.10
 - \$296.10
 - \$7.50
 - None of the above.

33. How high would the cost of nitrogen need to get before “Herkey” would apply only 60 pounds of nitrogen. (The price of corn is \$2.10 per bushed).
- “Herkey” should never apply as little as 60 pounds of nitrogen.
 - At 70 cents per pound “Herkey” should apply 60 pounds.
 - At 7 cents per pound “Herkey” should apply 60 pounds.
 - “Herkey” should apply 60 pounds with the price at 36 cents per pound.

Part II. Bonus (2 points)

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