

DO NOT WRITE IN THIS AREA!

Total points possible	<u>745</u>
Total points received	_____
Course %	_____
Course grade	_____

START HERE

Part I: Multiple Choice. 3 points each.

- Information for evaluation of yield or production risk can come from a number of sources. If you have the information, the best information would likely come from:
 - county historical yield records.
 - state historical yield work.
 - your own production records.
 - your memory or judgment.
 - your countries historical yield records.
- Risk and uncertainty is a part of production agriculture and needs to be effectively managed. Strategies to deal with market risk and uncertainty would include:
 - spread sales.
 - use operating loans.
 - diversify your crop mix.
 - build credit reserves.
 - all of the above
- A cash flow budget can be used to:
 - estimate when and how much money will need to be borrowed during the year.
 - estimate when and how much debt can be repaid during the year.
 - estimate when excess cash may be available so plans can be made to invest it.
 - plan your credit needs.
 - all of the above.
- Sources of risk in agriculture would include the following:
 - genetic variability
 - market price
 - social
 - human
 - all of the above

5. Which of the following would appear on a cash flow for 2005?
- Level of depreciation claimed in 2005.
 - The amount you received for corn you sold in 2005.
 - The fertilizer bill you have on account on Dec. 31, 2005.
 - The value for the cattle you sold on December 28, 2005 to be priced on January 10, 2006.
 - None of the above would be on a cash flow for 2005.
6. Steps to preparing a cash flow budget would include:
- taking an inventory of the operation.
 - estimating livestock sales.
 - estimating crop expenses.
 - estimating crop sales.
 - all of the above are steps to a cash flow.
7. Information is provided which shows returns from farrow-to-finish hogs in Iowa for 1994-2003. Given this information, what percent of the time would you expect to receive a profit of at least \$10 for farrow-to-finish hogs?
- 18.3%
 - 12.5%
 - 30.8%
 - 55.8%
 - none of the above
8. The following will show you the relative risk level (variability) of different alternatives:
- the coefficient of variation
 - the standard deviation
 - the expected value
 - cumulative probability distribution
 - none of the above
9. When preparing a cash flow budget for 2005 you would:
- include depreciation so you know how much cash is needed to replace assets.
 - include expense for fertilizer applied during the Fall 2005 that you paid in 2006. You need to account for it in the year it was applied.
 - consider family living expenses that are paid next year but are used this year.
 - use it to project your expected net profit for the operation.
 - none of the above.

The following six questions are based on the information provided which shows a Percent Return on Investment by Type of Iowa farm for 1970-2003. This information is provided.

10. Given this Iowa farm return information, where would you expect the percent return on investment for beef raising production to fall 95 percent of the time?
- 0.5 and 10.5%
 - 4.5 and 15.5%
 - 5.5 and 17.5%
 - 1.1 and 14.9%
 - none of the above

11. Which enterprise would you choose if you want to minimize losses or select that enterprise that would do the best in the worst situation? (Base your answer utilizing the approach where 68% of the observations would fall.)
- a. hogs
 - b. beef feeding
 - c. dairy
 - d. grain
 - e. beef raising
12. With information provided, what is the coefficient of variation for dairy production?
- a. .79
 - b. .58
 - c. 1.71
 - d. 3.5
 - e. .42
13. Which enterprise would you choose if you want to pick the enterprise which would provide the highest possible income or rate of return on investment? (Base your answer utilizing the approach where 95% of the observations would fall.)
- a. hogs
 - b. beef feeding
 - c. dairy
 - d. grain
 - e. beef raising
14. Which enterprise would you choose if you want to choose the highest expected or average rate of return on investment but it cannot fall below a -1.1 percent rate of return? (Base your answer utilizing the approach where 95% of the observations would fall or two standard deviations.)
- a. hogs
 - b. beef feeding
 - c. dairy
 - d. grain
 - e. beef raising
15. Which enterprise provides the highest expected or average return on investment?
- a. hogs
 - b. beef feeding
 - c. dairy
 - d. grain
 - e. beef raising
16. In his presentation, Dr. Mike Duffy showed that the main funding program within the current farm bill was:
- a. energy programs.
 - b. conservation programs.
 - c. commodity programs.
 - d. none of the above

17. Dr. Mike Duffy talked about the level of net farm income as a percent of gross income. He indicated that if government payments are included, it represents _____ percent of the gross income.
- a. 15%
 - b. 12%
 - c. 17%
 - d. 25%
 - e. 55%
18. According to State of Iowa law, if you are going to terminate a land lease, it needs to be terminated by:
- a. March 1
 - b. July 1
 - c. October 1
 - d. September 1
 - e. December 1
19. According to Tim Fevold, Hertz Farm Management, the type of lease used most often in Iowa was the:
- a. crop-share lease
 - b. cash lease
 - c. custom arrangement
 - d. modified share lease
20. Iowa land sales in 2004 showed that:
- a. about 56 percent of the sales were to existing farmers.
 - b. new farmers purchased about 30 percent of the land sold.
 - c. investors purchased about one half (49%) of the land sold.
 - d. investors purchased about two-thirds (67%) of the land sold.
 - e. existing farmers purchased about three-fourths (75%) of the land sold.
21. According to Tim Fevold, Hertz Farm Management:
- a. most leases in Iowa are written for a year at a time.
 - b. about 60 percent of the land in Iowa is farmed by the person who owns it.
 - c. only 25 percent of the land in Iowa is farmed by someone who doesn't own it.
 - d. a lease needs to be written to be legal.
 - e. none of the above
22. Methods of gaining control of capital for a business operation would include:
- a. debt capital, outside equity, leasing.
 - b. owner's net worth, contracting, outside equity.
 - c. leasing, outside equity, debt capital.
 - d. outside equity, contracting, debt capital.
 - e. All of the above are sources of capital.
23. According to Dr. Mike Duffy the current government program has three types of payments. They are:
- a. loan deficiency, direct, and support
 - b. counter cyclical, direct, and mandatory
 - c. direct, counter cyclical and loan deficiency
 - d. loan deficiency, mandatory, and counter cyclical
 - e. none of the above

24. According to a survey conducted by Dr. Michael Duffy and reported in the "2004 Farmland Value Survey" the average value of farm land in Iowa increased by _____ percent in 2004.
- a. 9.2%
 - b. 6.7%
 - c. 15.6%
 - d. 18.9%
 - e. none of the above
25. In 2002 the primary supplier of credit to agriculture was:
- a. the farm credit system
 - b. individuals
 - c. the Farm Service Agency
 - d. commercial banks
 - e. none of the above

The following information is for the next two questions. (Information in tables provided may be helpful.)

You purchased a four-wheel drive tractor today, April 27, 2005. It has it all: triple on each axle, air cooled seat and climate controlled cab, computer hook-up for market reports and PC Mars farm records, guidance system, air-glide riding system, surround sound Bose stereo system, chrome ladder for getting into and out of your 'second home', and velvet seat covers. It will even pull tillage equipment. The purchase price was \$160,000.

26. If you use additional first-year expensing and regular MACRS depreciation, how much is your level of total depreciation claimed in 2005? (You are filing a joint return.)
- a. \$105,000
 - b. \$110,893
 - c. \$122,142
 - d. \$123,250
 - e. Can't calculate with the information provided.
27. How much regular MACRS depreciation can you claim in 2006? (Do not expense, not mid quarter).
- a. \$24,053
 - b. \$30,612
 - c. \$17,142
 - d. \$40,800
 - e. none of the above
28. Today, April 27, 2005, you traded a pickup truck for another pickup truck. The market value of the traded pickup was \$15,000. You paid \$12,000 in cash 'boot' for the new pickup plus the pickup traded. Given this, how much regular MACRS depreciation do you claim on the pickups in 2005? The traded pickup was purchased in 2003 for \$25,000.
- a. ~~\$6,662.50~~ 6,262.50
 - b. \$4,462.50
 - c. \$1,800.00
 - d. \$8,750.00
 - e. Can't calculate with the information provided.

You purchased a 4-wheel drive pickup today, April 27, 2005. You have ISU license plates which say "Road Hog". It has it all: wide 'mud' tires (so wide you need a caution symbol on the end gate), high axles, etc., with ladder to get in and out of the 'beast', chrome running boards and dual stacks, velvet seat covers (works well when you get in from loading hogs!!!), computer hookup for market reports, etc. The purchase price was \$34,000. (Information in Tables provided may be helpful.)

29. How much regular straight line depreciation can be claimed on the pickup in 2005? **Do not expense, not mid-quarter).**
- a. \$6,800
 - b. \$3,400
 - c. \$4,857
 - d. \$2,424
 - e. none of the above

Listed below are Federal, State, and Social Security tax levels.

	<u>Taxable Income</u>	<u>Tax Level</u>
Federal Tax Levels	\$0 to \$35,000	15%
	\$35,001 and above	28%
State Tax Levels	\$0 to \$10,000	4%
	\$10,001 to \$25,000	6%
	\$25,001 to \$45,000	8%
	Over \$45,001	9%
Social Security	Income up to \$87,000	15%

30. Given this, how much more taxes (Federal and State) and Social Security tax will be paid if you increase taxable income from \$15,150 to \$15,250 or by \$100?
- a. \$15.00
 - b. \$36.00
 - c. \$30.00
 - d. \$34.00
 - e. none of the above

The following information is needed for the next two questions – question 31 and 32. A loan was necessary for the tractor you purchased today. The purchase price was \$160,000. You were able to use cash you had accumulated to pay down 12.5%. You need to borrow the remainder, or 87.5% (\$140,000) of the purchase price. You get a loan from the machinery dealer for 6%. It is a 7 year loan.

31. If the loan will be amortized using the equal total payment plan, how much interest will you pay in the 2nd year of the loan? You are making annual payments. (A table provided may be useful.)
- a. \$8,400.00
 - b. \$7,301.76
 - c. \$25,079.60
 - d. \$7,399.22
 - e. Can't determine with the information provided.

32. If the loan is an even principle payment plan, how much interest will you pay during the 4th year of the loan?
- a. \$8,400
 - b. \$4,800
 - c. \$6,000
 - d. \$2,400
 - e. Can't determine with the information provided.

You have the option to purchase a farm for \$200,000. You will be taking out a 20-year loan and wish to evaluate the investment over the 20 year period. You project that you will have an annual return or profit of 7 percent of the investment or purchase price and that land values will increase, on average, 5 percent per year.

33. If the discount rate is 6%, what is the present value of the farm purchase?
- a. \$691,239
 - b. \$200,000
 - c. \$326,038
 - d. \$530,660
 - e. \$426,990
34. We wish you all the very best. For those graduating, go for it!!! For those returning, have a great and eventful summer!
- a. I will do that!
 - b. I do not plan on doing that.
 - c. "B" is not an acceptable answer.