

Econ 330 – Farm Management

Spring 2008

Name: KEY – white test

Exam #4a – 8:00 section or 9:00 section (**circle one**)

Multiple Choice. Circle the best answer. (3 pts. each)

1. A *Counter Cyclical Payment* is paid to an eligible producer:
 - a. When the *effective commodity price* falls below the target price for the commodity
 - b. When the *Posted County Price* falls below the target price for the commodity
 - c. Each year the producer is enrolled in the farm program, regardless of commodity prices
 - d. At the discretion of the U.S. Secretary of Agriculture.

2. Assume that you are currently in the 15 percent federal income tax bracket, the 4.5 percent Iowa income tax bracket, pay 15.3 percent of you income to self employment taxes and use an 8.5 percent discount factor. What is your marginal tax rate?
 - a. 15.0 percent
 - b. 26.3 percent
 - c. 30.3 percent
 - d. 34.8 percent
 - e. 43.3 percent

3. Farm land is considered a “hedge against inflation” because:
 - a. Farm land increases in value at approximately the same rate as general inflation
 - b. General inflation does not influence land values
 - c. Farm land values are a leading indicator of general inflation
 - d. The interest rate used to finance land loans have an adjustment for general inflation

4. Which of the following is **not** one of the ways to control land listed by Tim Fevold?
 - a. Inherit
 - b. Lease
 - c. Matrimony
 - d. Buying
 - e. In-Kind Exchange

5. Tim Fevold provided five reasons why a farmer would consider leasing land, rather than owning land. Which is **not** one of those reasons?
 - a. Can expand or contract faster
 - b. Can be part of a risk management strategy
 - c. May provide better returns
 - d. Is more flexible
 - e. All of the above were discussed

6. The Modified Accelerated Cost Recovery System (MACRS) allows a farm manager to:
 - a. Depreciate the purchase price of a new tractor to zero
 - b. Reduce the taxable net income from farm operations calculated on Schedule F
 - c. Depreciates the purchase price of a new tractor faster than straight line depreciation
 - d. Deduct one-half year depreciation in the year the tractor is placed in service, regardless of the purchase date
 - e. All of the above

7. Assume that the county loan rate for soybeans is \$5.00 per bushel. The current Posted Count Price (PCP) for soybeans is \$4.80 per bushel and the Target Price is \$5.80 per bushel. What would the Loan Deficiency Payment (LDP) be, if you chose to take it?
 - a. \$ 0.20 per bushel
 - b. \$ 0.80 per bushel
 - c. \$ 5.00 per bushel plus accumulated interest
 - d. Don't have enough information to calculate the LDP

8. A *Line-of-Credit* is a:
 - a. A loan with a fixed repayment schedule
 - b. A loan that can be advanced and repaid at any time during the loan period
 - c. A loan that is commonly used to purchase seed, feed and fertilizer
 - d. A loan secured by your signature only
 - e. Both A and B
 - f. Both B and C

9. Which of the following is **not** an important factor used by a lender when evaluating a loan?
 - a. Purpose of the loan
 - b. Personal Character
 - c. Repayment Capacity
 - d. Financial Progress over time
 - e. All of the above are important

10. Assume that you custom harvest 150 acres of corn for your neighbor and charge \$30.00 per acre. This added custom work will:
 - a. Increase the total annual depreciation expense
 - b. Increase gross farm income
 - c. Increase non-farm expenses
 - d. Increase farm operating expenses
 - e. Both A and B
 - f. Both B and D
 - g. All of the above

11. Assume that you purchase a new row crop planter for \$50,000. The dealer offers you \$15,000 for your old (fully depreciated) planter. You finance the remaining \$35,000 at 7% interest for 5 years. The Internal Revenue Service (IRS) requires that you depreciate the new planter over 7 years using the MACRS method. What would your first year's tax depreciation expense be? **Please use Table 1 on last page.**
- \$ 3,748.50
 - \$ 5,250.00
 - \$ 5,355.00
 - \$ 6,695.50
12. Assume that you sold the old (fully depreciated) planter in Question #11 for \$16,500 at an auction sale, rather than trading it in on the new planter. You purchased the old planter 9 years ago for \$30,000. The IRS would consider the \$16,500:
- A good sale price
 - Capital Gains Income
 - Recapture Depreciation
 - A Section 179 Expense
13. Which of the following is **not** one of the advantages to owning land?
- Can maintain management independence
 - Increased security of tenure
 - Typically easier to cash flow a land purchase, versus cash rent
 - Increased loan collateral from rising land values
14. A land lease agreement should:
- Include a legal description of the property
 - Specify the rate and timing of lease payments
 - List the full name of both land owner and tenant
 - Be in writing
 - All of the above
 - None of the above
15. Farm labor expenses are:
- Typically considered a variable expense
 - Typically considered a fixed expense
 - Either a fixed or variable expense depending upon how the wages are paid
 - Not a deductible expense for federal income taxes
16. Which of the following is **not** an expense associated with employee turnover:
- Social Security and Medicare Withholding (FICA)
 - Lost efficiency during re-hiring process
 - Time required for employee training
 - Time required to recruit and select an employee

Due to a wet and cold spring, you decide to switch 100 acres of corn to soybeans (i.e. reduce corn acres planted and increase soybean acres planted). Below is a summary of the enterprise budgets you prepared earlier in the spring. **Please answer Questions 17 through 19 using the information in this table.**

	Corn	Soybean
Expected Yield	160 bu. / a.	55 Bu. / a.
Expected Price	\$ 4.00 / bu.	\$ 9.00 / bu.
Estimated Gross	\$ 640.00 / a.	\$ 495.00 / a.
Total Variable Costs (Seed, Fert., Chem., Fuel,...)	\$ 305.00 / a.	\$ 170.00 / a.
Return to Labor, Management and Fixed Costs (before tax)	\$ 335.00 / a.	\$ 325.00 / a.

17. How will switching 100 acres from corn to soybeans affect the total amount borrowed from your operating line of credit?
- Total operating loan borrowings will increase
 - Total operating loan borrowings will decrease
 - Total operating loan borrowings will stay the same
 - There is not enough information to determine what will happen
18. How will switching 100 acres from corn to soybeans affect the gross income reported on your yearend Income Statement (Profit and Loss Statement), assuming your projections are correct?
- Gross income will increase
 - Gross income will decrease
 - Gross income will stay the same
 - There is not enough information to determine what will happen
19. How will switching 100 acres from corn to soybeans affect the Intermediate Liabilities reported on your yearend Balance Sheet (Net Worth Statement), assuming your projections are correct?
- Intermediate Liabilities expense will increase
 - Intermediate Liabilities will decrease
 - Intermediate Liabilities will stay the same
20. Assets pledged to a lender to insure loan payments are called:
- Credit
 - Liabilities
 - Equity
 - Collateral

21. The *total cost of borrowing* is:
- The Annual Percentage Rate (APR) of interest
 - Points or closing fees
 - Service fees
 - All of the above
22. IRS considers income to be taxable if it is *constructively received* during the tax year.
Constructive Receipt means:
- Funds that have been credited to an account
 - Funds are credited to an account or available for use before the end of the tax year
 - Funds have been used to purchase capital assets
 - Funds have been used to pay operating expenses
23. Which of the following is **not** typically included in an employment agreement?
- The number of allowed paid vacation days, if paid vacation is provided
 - How bonuses will be earned
 - How the Social Security withholding will be divided
 - The base wage or salary
24. Assume that you purchase a new combine for \$275,000. The dealer offers you \$50,000 for your old (fully depreciated) combine. You finance the remaining \$225,000 at 6.5% interest for 7 years. You choose to use \$100,000 of Section 179 Expensing (a maximum of \$250,000 is allowed in 2008) on this purchase. What is the *adjusted tax basis* of the new combine (i.e. the amount you are allowed to depreciate this year)?
- \$ 275,000
 - \$ 225,000
 - \$ 125,000
 - \$ 100,000
 - \$ 0
25. Assume that your 2007 federal taxable income was \$65,700, and you are married filing a joint return. What is your total federal income tax? **Please use Table 2 on the last page.**
- \$ 500.00
 - \$ 8,722.50
 - \$ 9,272.50
 - \$ 16,425.00
26. The *Direct Payment* for authorized commodities, provided within the 2002 farm bill, is based upon:
- A fixed rate and historical acreage and production information
 - A fixed rate and current acreage and production information
 - The Posted County Price
 - The estimated National Average Marketing Year Price

27. A *Marketing Loan* can be taken out on authorized commodities from the Commodity Credit Corporation (CCC) based upon:
- A fixed rate and historical acreage and production information
 - A fixed rate and current acreage and production information
 - The Posted County Price
 - The estimated National Average Marketing Year Price
28. An effective incentive plan should:
- Criticize in public and praise in private
 - Be easy to understand by both the employee and employer
 - Be based on factors beyond the control of both the employee and employer
 - Be made promptly and internally consistent
 - Both A and B
 - Both B and D
 - All of the above
29. Which of the following is **not** a possible source of funds for a land loan?
- Commercial Bank
 - Farm Credit System
 - Farm Service Agency (USDA-FSA)
 - Life Insurance Companies
 - All of the above
 - None of the above
30. An *operating lease* should always be listed as a liability on the Balance Sheet.
- True
 - False
31. Low pay is commonly listed as the primary complaint by farm employees.
- True
 - False
32. Which of the following is **not** a recommended method to improve labor efficiency?
- Plan and schedule work procedures and routines
 - Provide safe and comfortable working conditions
 - Reduce the capital invested per worker
 - Simplify work procedures and routines
33. If an eligible producer takes out a non-recourse Commodity Marketing Loan, they can:
- “Buy Back” the loan at the Posted County Price (PCP)
 - Forfeit the commodity to USDA and the accumulated interest is cancelled
 - Repay the loan plus accumulated interest
 - “Buy Back” the loan with a generic commodity certificate
 - All of the above

Extra Credit (2 pts): What is (are) the key element(s) that is (are) needed to establish an *operating lease*?

- The asset must be operated each year of the lease
- The purchase of the asset at the end of the lease must be optional
- The purchase price at the end of the lease must approximate the market value
- Both A and B
- Both B and C

Table 1. Regular MACRS Recovery Rates for Farm & Ranch Assets (Half-Year Convention)

Recovery Year	Recovery Percentages		
	3-Year Class	5-Year Class	7-Year Class
1	25.00	15.00	10.71
2	37.50	25.50	19.13
3	25.00	17.85	15.03
4	12.5	16.66	12.25
5		16.66	12.25
6		8.33	12.25
7			12.25
8			6.13

Table 2. 2007 Federal Income Tax Rate Schedule for *Married Filing Jointly*.

If taxable income is:		The tax is:	
Over	But not over	Tax Rate	Amount Due
0	15,650	10%	
15,650	63,700	15%	
63,700	128,500	25%	
128,500	195,850	28%	
195,850	349,700	33%	
349,700	-----	35%	

Answers: ("white" test)

1. a
 2. d
 3. a
 4. e
 5. e
 6. e
 7. a
 8. f
 9. e
 10. f
 11. a
 12. c
 13. c
 14. e
 15. c
 16. a
 17. b
 18. b
 19. c
 20. d
 21. d
 22. b
 23. c
 24. c
 25. c
 26. a
 27. b
 28. f
 29. e
 30. b
 31. b
 32. c
 33. e
- Extra Credit: e