

Multiple Choice. Circle the best answer. Put a square around your second choice if you want. Half-credit is given for second choice, no penalty.

1. Which of the following current farm program payments are available on **actual** crop production amounts (i.e. actual bushels produced)? **(4 pts.)**
 - a. Direct Payments (DP)
 - b. Counter Cyclical Payments (CCP)
 - c. Marketing Loans (ML)
 - d. Loan Deficiency Payments (LDP)
 - e. Both A and B
 - f. Both C and D

2. Which of the following is **not** an approved method for repaying non-recourse Marketing Loans (ML) taken on an eligible crop within the current farm program? **(4 pts.)**
 - a. “Buy Back” the loan with generic commodity certificates
 - b. Forfeit the crop and have the loan plus interest cancelled
 - c. “Buy Back” the loan using another eligible program crop as collateral
 - d. Repay the loan plus accumulated interest
 - e. “Buy Back” the loan at the Posted County Price (PCP)

3. The most common form of land leasing arrangements is: **(4 pts.)**
 - a. Crop Share Leases
 - b. Cash Rent Leases
 - c. There is no dominant form of leasing arrangement. The portion of crop share and cash rent arrangements are approximately the same.

4. Which of the following is **not** considered to be an advantage of a cash rent lease for the tenant, when compared to a crop share lease? **(4 pts.)**
 - a. The tenant has reduced income risk from yield variability
 - b. The tenant has more flexibility in making management decisions
 - c. Easier for tenant to interact with land owner(s) who live a long distance from the property
 - d. Easier for tenant to interact with land owner(s) who have little knowledge of production agriculture

5. A farm manager’s tax management goal should be to: **(4 pts.)**
 - a. Minimize income taxes paid
 - b. Avoid paying any income taxes
 - c. Maximize before tax net income
 - d. Maximize after tax net income

6. An increase in the total value of crop inventories would be considered taxable income: **(4 pts.)**
- If the farm manager had elected to use an accrual tax reporting method
 - If the farm manager had elected to use a cash tax reporting method
 - If the farm manager chose to store the crop in their own storage facilities
 - Only if the crop were produced in the current tax year
7. Which of the following is **not** considered to be an **optional** fringe benefit within an employment contract? **(4 pts.)**
- Purchasing the employee's health insurance
 - Paying one half of the employee's Social Security and Medicare contributions
 - Making contributions to the employee's retirement plan
 - Providing a vehicle to use for both farm and personal use
8. Farm labor expenses should be considered: **(4 pts.)**
- A fixed expense
 - A variable expense
 - Neither a fixed nor variable expense
 - Either a fixed or variable expense depending upon how the employee is paid
9. The value of the Loan Deficiency Payment (LDP) is: **(4 pts.)**
- The difference between the National Target Price and the local cash price posted at the elevator or feed company
 - A fixed value set by congress for the length of the farm bill
 - The difference between the County Loan Rate and current the Posted County Price (PCP)
 - The difference between the current local cash price and the futures market price
10. Section 179 "expensing" allows a farm manager to: **(4 pts.)**
- Deduct up to \$108,000, for 2006, of the cost of an asset as a current business expense rather than depreciate this amount.
 - Depreciate the value of a business asset to zero (i.e. allows zero salvage value)
 - Automatically take one half year depreciation, even though the asset was purchased just before the end of the tax year
 - Deduct up to \$108,000, for 2006, of the gain from the sale of an asset over its purchase price
11. The Internal Revenue Service (IRS) form that farmers must use to report specific **farm** income and expense items is: **(4 pts.)**
- Form 1040
 - Schedule E
 - Schedule F
 - Schedule SE

12. Which of the following is **not** considered a method to motivate high performance from an employee? (4 pts.)
- Share unpleasant jobs on the farm/ranch
 - Critique poor performance in private
 - Praise good performance in public
 - Reduce employee's pay for occasional "poor" employee decision making
 - Set a policy for employee vacation time
13. Assume you are evaluating the purchase of 160 acres of farm land (150 acres tillable) adjacent to land you presently own. The current annual cash rent for comparable land is \$175.00 per acre. Based upon historical production records and current input costs, you have estimated that you could generate an average of \$125.00 per acre in net income from farming this land. You can borrow up to 60% of the purchase price at 8.0% for 30 years. You have also chosen a discount factor of 5%. Based upon this information, what is the estimated capitalized value of this land? ($V=R/d$) (4 pts.)
- \$3,500 / acre
 - \$2,500 / acre
 - \$2,188 / acre
 - \$2,100 / acre
 - \$1,565 / acre
14. An alternative method to estimate the value of the land in Question #13 is to evaluate current market data or sales of comparable land. However, no two tracts of land are exactly the same. Which of the following is **not** an adjustment that should be included when analyzing comparable farm land sales? (4 pts.)
- Soil type and topography
 - The relationship between the buyer and seller
 - The financing of the comparable land purchase
 - The date of the transaction (i.e. how long ago)
 - All of the above must be considered
 - None of the above should be considered
15. Assume that the tract of land in Question #13 has 80 acres of historical corn base, with a program yield of 120 bushels per acre, and 40 acres of historical soybean base, with a program yield of 45 bushels per acre. You intend to plant 75 acres of corn and 75 acres of soybeans and expect to produce 160 bushels per acre of corn and 60 bushels per acre of soybeans. The 2007 Direct Payment for corn is \$0.28 per bushel and \$0.44 per bushel for soybeans. What would be the total 2007 Direct Payment paid to the owner of this tract of land? (NOTE: don't forget the 85% adjustment) (4 pts.)
- \$2,958
 - \$3,480
 - \$4,539
 - \$5,340

16. Assume that you purchased a row crop planter nine years ago for \$15,000 and have claimed the MACRS depreciation expense each year. As a result, the tax basis is zero (i.e. it is completely depreciated). You place a classified advertisement and sell the planter for \$6,500. According to the IRS tax regulations, the sales value of \$6,500 is considered: **(4 pts.)**
- The “to boot” price and not included in taxable income
 - A capital gain and taxable at the capital gains tax rate
 - Recapture depreciation and taxable at the marginal federal tax rate
 - A standard deduction and taxable at the marginal federal tax rate
17. Assume that your 2006 federal taxable income was \$27,346. Using the tables available on the last page, what is your federal income tax liability? **(4 pts.)**
- \$4,102
 - \$3,347
 - \$2,735
 - \$1,837
18. Assume a farm manager were in the 15% federal income tax bracket, the 6.48% Iowa state income tax bracket and paid 15.3% of net farm profit in self employment taxes. What would be the farm manager’s estimated marginal tax rate if the farm’s net profit increased by \$1,000? **(4 pts.)**
- 6.48%
 - 15%
 - 15.3%
 - 21.48%
 - 36.78%
19. One of the many responsibilities of a farm manager is to establish and maintain the efficient use of farm labor. Which of the following is **not** considered a method to improve labor efficiency? **(4 pts.)**
- Provide safe and comfortable working conditions
 - Hire more employees
 - Plan and schedule tasks to reduce “slack time”
 - Simplify procedures and routines
20. High employee turnover can be very expensive for a farm/ranch operation. Please give one example of an expense that may result from an employee leaving their position. (can be cash cost or opportunity cost). **(4 pts.)**

21. It is highly recommended that a written land leasing agreement be used, rather than an oral or verbal agreement. Which of the following is **not** commonly found within a written land lease agreement? **(4 pts.)**
- A legal description of the property
 - The length of the lease and conditions for renewal
 - Signatures of both the land owner and tenant
 - Amount, timing and method of lease payment(s)
 - All of the above are commonly found
 - None of the above are commonly found
22. Which if the following is **not** a recognized tax management method for farm/ranch operations using the cash reporting method? **(4 pts.)**
- Income Averaging
 - Income leveling (income smoothing)
 - Carry forward or carry back of Net Operating Losses (NOL)
 - Section 179 “expensing”
 - All of the above are common methods
 - None of the above are common methods
23. When developing an employee incentive plan, the plan should: **(4 pts.)**
- Reward work or decisions that are in the best interest of the employer
 - Include incentives large enough to motivate performance
 - Be an oral or verbal agreement negotiated between the employer and employee
 - Be simple to understand
 - A, B and D
 - All of the above
 - None of the above
24. Counter Cyclical Payments (CCP) are paid on eligible commodities: **(4 pts.)**
- At a fixed rate every year
 - When the national average marketing year price is below the “trigger price”
 - When the farm manager notifies the county Farm Service Agency (FSA)
 - When the Secretary of Agriculture feels like it
25. Farm land values are **most** heavily influenced by: **(4 pts.)**
- The inflation rate within the general economy
 - The Internal Revenue Service’s (IRS) regulations concerning taxation of capital gains
 - The profitability of agricultural production
 - Whether the Republicans or Democrats control the U.S. Congress

Extra Credit: Assume a land owner and tenant has established a flexible cash lease agreement. The *base* cash rent is \$130.00 per tillable acre, with a *base* corn yield of 155 bushels per acre and a *base* corn price of \$2.45 per bushel. If the *actual* 2007 harvested corn yield were 148 bushels per acre and the *actual* average harvest price were \$3.10 per bushel, what would the *actual* cash lease payment be? (4 pts.)

- \$98 per tillable acre
- \$108 per tillable acre
- \$157 per tillable acre
- \$172 per tillable acre

Extra Credit: The U.S. federal income tax system is considered a:

- Regressive tax system
- Progressive tax system
- Proportional tax system
- Consumption tax

Federal Income Tax Rate Schedule for *Married Filing Jointly*.

| If taxable income is: | | The tax is: | |
|-----------------------|--------------|--------------|--------------------|
| Over | But not over | | of the amount over |
| 0 | 15,100 | 10% | 0 |
| 15,100 | 61,300 | 1,510 + 15% | 15,100 |
| 61,300 | 123,700 | 8,440 + 25% | 61,300 |
| 123,700 | 188,450 | 24,040 + 28% | 123,700 |
| 188,450 | 336,550 | 42,170 + 33% | 188,450 |
| 336,550 | ----- | 91,043 + 35% | 336,550 |

Income Subject to Self Employment Tax

| Net Earnings | Rate |
|--------------------------------------------------|--------|
| 0 – 94,200 | 15.3 % |
| Over 94,200 | 2.9 % |
| 12.4 % for Social Security and 2.9% for Medicare | |

Test #4 Key

1. f
 2. c
 3. b
 4. a
 5. d
 6. a
 7. b
 8. d
 9. c
 10. a
 11. c
 12. d
 13. b
 14. e
 15. a
 16. c
 17. b
 18. e
 19. b
 20. Search and hiring process takes time and effort, training new employee takes time and effort and there may be lost efficiency during the re-hiring process
 21. e
 22. e
 23. e
 24. b
 25. c
- Extra Credit #1: c
Extra Credit #2: b