

Economics 430

Exam 2

Fall 2008

Name _____

Key

Part I. Multiple Choice (4 points each). Select the best answer.

1. You are in the 25% tax bracket in 2008. The level of depreciation you claimed reduced your federal income taxes by \$6,000. The level of depreciation was _____?
 - a. \$900
 - b. \$16,000
 - c. \$40,000
 - d. \$12,000
 - e. none of the above

2. Which of the following tax options would decrease income taxes during a year in which taxable income is abnormally high (cash basis filing):
 - a. Move some crop sales normally made this year into next year.
 - b. Use accelerated depreciation and pay in advance or move next year's revenues into this year.
 - c. Use straight line depreciation.
 - d. Move some expenses which would normally occur this year into next year.
 - e. c and d only
 - f. a and b only
 - g. none of the above

3. You have just completed a long-range whole farm plan for an operation of your choice. In doing so you have completed a number of steps. These would include:
 - a. establishing goals, determining expected production levels, identifying resources available.
 - b. evaluating the cash flow, evaluating profit, determining expected crop prices.
 - c. determining expected livestock prices, determining your skills and personal preference, evaluating available markets.
 - d. determining capital requirements, determining amount and distribution of labor, summarizing the cropping system.
 - e. summarizing the livestock system, comparing the alternatives and making a choice, identifying problems.
 - f. All of the above are potential steps to completing a long range whole farm plan.

4. In long-range whole farm planning you are looking at a set of alternatives to determine which one is best for you. In making the decision:
 - a. the amount of risk is a consideration.
 - b. income stability along with expected income can be important.
 - c. profitability along with cash flow or the ability to repay debt would be considerations.
 - d. level of investment would be considered.
 - e. All the above would be considered.
 - f. None of the above are good suggestions for making the decision in long-range planning.

5. Factors that influence land leasing terms include:
 - a. Value of the contributions made by each party in the leasing arrangement
 - b. Productivity of the contributions of each party
 - c. Alternative opportunities open to each party for use of their resources
 - d. All of the above

6. Cash lease advantages would include:
- The lease is simple with relatively few chances for misunderstanding
 - The owner is relieved of making operating decisions
 - The tenant has maximum freedom in planning and developing the cropping and livestock programs
 - The decision of whether or not to participate in government programs may be made only by the tenant
 - All of the above
7. You have completed your whole farm long range farm plan and are now evaluating the results. Factors you would consider, in addition to the bottom line, could include:
- Seasonal distribution of labor needs
 - level of investment needed
 - variability of income
 - management responsibilities
 - all of the above
8. In whole farm long-range planning:
- it is usually best to fit enterprises to those resources which are highly flexible. Adjustments can be made quicker that way.
 - it is always best to select the plan which provides the best cash flow.
 - the benchmark plan should contain only crops or only livestock and then you can add the other for the alternative plans.
 - the amount of risk of each alternative should not be considered.
 - none of the above are guidelines for use in whole farm planning.
9. One measure used in many livestock enterprise records is returns per \$100 feed fed. You have the following information for your cattle feeding operation:
- | | |
|------------------------------------|-----------|
| Home consumption | \$1,000 |
| Homegrown feed fed | \$100,000 |
| Cattle purchases | \$110,000 |
| Cattle sales | \$350,000 |
| Beginning cattle inventory | \$160,000 |
| Ending cattle in inventory | \$130,000 |
| Beginning inventory purchased feed | \$10,000 |
| Feed purchased | \$100,000 |
| Ending inventory purchased feed | \$20,000 |
- Given this, the return per \$100 feed fed is:
- \$168.95
 - \$105.50
 - \$111.05
 - \$95.90
 - Can't calculate with information provided
10. In the above example, if all of your production costs excluding feed cost were \$15 per \$100 feed fed you:
- made money
 - broke even
 - lost money
 - none of the above
 - not sufficient information to determine

11. You are provided the following information:

Item	Cow A	Cow B
% calf crop	90%	90%
Calf weight	555	480
Calf price	\$1.00 per pound	\$1.00 per pound
Number acres per cow	2.0	1.5

Given this, what is the revenue per cow for Cow A?

- a. \$555.00
- b. \$499.50
- c. \$249.75
- d. Can't calculate with information provided.

12. What is the return per acre for Cow B?

- a. \$480.00
- b. \$432.00
- c. \$288.00
- d. \$648.00
- e. none of the above

Attached information provides enterprise information for an Iowa grain hog farm. Use this information for the next six questions.

13. What was the return on investment for the farm?

- a. 8.1%
- b. 4.7%
- c. 29.1%
- d. 34.9%
- e. none of the above

14. What was the 'total cash expense' per bushel for corn production for the farm?

- a. \$2.11 per bushel
- b. \$1.47 per bushel
- c. \$1.95 per bushel
- d. \$3.15 per bushel
- e. none of the above

15. What was the average number of bushels of soybeans produced per acre for the farm?

- a. 39.3 bushels
- b. 49.3 bushels
- c. 49.8 bushels
- d. 52.4 bushels
- e. none of the above

16. How many pigs were weaned (weaning average) per sow farrowed for farm?

- a. 9.207
- b. 7.431
- c. 8.296
- d. 10.152
- e. None of the above

17. What was the "Feed Return / \$100 Feed Fed" for the average producers which were similar in size to farm?

- OK
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- a. \$144.12
 - b. \$149.29
 - c. \$145.18
 - d. \$130.54
 - e. None of the above

18. What were the "equity charges" for the farm #1499997 when calculating management return?

- a. 9.5%
- b. \$139,640
- c. \$69,682
- d. \$49,282
- e. None of the above

The next four questions are based on the following information.

19. Today, December 9, 2008, you purchased some dairy cows for \$230,000. How much first year expensing can you claim in 2008 on the dairy cows? (You are filing a joint return; midquarter convention doesn't apply.)

- a. \$250,000
- b. \$230,000
- c. \$128,000
- d. \$102,000
- e. None of the above

20. How much straight line depreciation can you claim on the dairy cows in the year 2008? (Again, you are filing a joint return; midquarter convention doesn't apply. You are also not using first year expensing. Attached tables may help.)

- a. \$46,000
- b. \$76,667
- c. \$23,000
- d. \$38,333
- e. None of the above

21. How much regular MACRS depreciation can you claim in 2008? (Attached table may help.)

- a. \$57,500
- b. \$34,500
- c. \$7,188
- d. \$49,251
- e. None of the above

22. How much first-year expensing and regular MACRS depreciation can you claim on the dairy cows in 2008?

- a. \$264,000
- b. \$230,000
- c. \$210,510
- d. \$195,670
- e. None of the above

23. Today, Dec. 9, 2008, you also purchased a pickup truck for \$30,000. How much regular MACRS depreciation will you be able to claim on the pickup truck in 2008? (Mid-quarter convention doesn't apply. You only use regular MACRS.)

- a. \$3,214.20
- b. \$7,500.00
- c. \$4,500.00
- d. \$4,500.00
- e. \$4,229.75
- f. None of the above

The next two questions are based on the following information.

You had a general farm building constructed and ready for use as of today, Dec. 9, 2008. It cost \$200,000. Other 3 through 20 year class life assets you purchased in 2008 included tractor for \$100,000 on May 1; sows for \$10,000 in February; greenhouses for \$50,000 in September; and beef cows for \$20,000 in March.

24. How much MACRS depreciation can you claim on the general farm building in 2008?

- a. \$1,874
- b. \$7,500
- c. \$75,000
- d. \$13,124
- e. None of the above

25. How much MACRS depreciation can you claim on the beef cows in 2008?

- a. \$3,000
- b. \$5,250
- c. \$8,750
- d. \$6,750
- e. None of the above

The following eight questions are based on attached information for George and Ann Profit.

26. What is the current ratio for the Profits' business? (Prepare for the banker, use market value.)

- a. 1.35
- b. 2.10
- c. 1.27
- d. 1.59
- e. None of the above

27. What is George and Ann's business equity/asset ratio?

- a. .434
- b. .451
- c. .475
- d. .421
- e. None of the above

28. What is George and Ann Profit's depreciation expense ratio (Base on Gross Revenue)?

- a. .176
- b. .183
- c. .182
- d. .198
- e. None of the above

29. What is the business asset turnover for George and Ann Profit (Base on Gross Revenues)?
- a. .31
 - b. .255
 - c. .242
 - d. .269
 - e. None of the above
30. What is George and Ann Profit's interest expense ratio (Base on Gross Revenue)?
- a. .133
 - b. .136
 - c. .176
 - d. .182
 - e. None of the above
31. If George and Ann Profit indicate that they have placed a value of \$30,000 on their unpaid family labor and management, what is their rate of return on farm business equity? (Use end of year balance sheet values, if needed.)
- a. 4.29%
 - b. 3.81%
 - c. 1.81%
 - d. 4.16%
 - e. None of the above
32. If George and Ann Profit indicate they place a value of \$30,000 on their unpaid family labor and management, what is their rate of return on farm business assets? (Use end of year balance sheet values, if needed.)
- a. 5.26%
 - b. 1.81%
 - c. 10.98%
 - d. 6.75%
 - e. None of the above
33. If Ann and George indicate that they feel the opportunity charge on their business assets is 5 percent what is their return to labor and management for the business?
- a. \$50,085.00
 - b. \$33,105.05
 - c. \$32,376.05
 - d. \$45,942.05
 - e. None of the above

Part II. Fill in the blanks.

1. (8 pts.) During the semester you worked on eight labs. We would appreciate your assistance in how useful you feel they were. Place a value beside each one ranging from 1 to 4.

- 1 = very useful
- 2 = somewhat useful
- 3 = neutral
- 4 = not useful – drop it

OK for all

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|-------|----|------------------------------|
| _____ | 1. | Developing strategic plan |
| _____ | 2. | Pig finishing budget |
| _____ | 3. | Beef feeding assignment |
| _____ | 4. | Crop share arrangement |
| _____ | 5. | Cash flow analysis |
| _____ | 6. | Record analysis – whole farm |
| _____ | 7. | Record analysis – enterprise |
| _____ | 8. | Whole farm plan |

2. (12 pts.) We talked about tax management in buying a farm. You purchased the Econ 430 Farm for \$310,000. The assets listed below come with the purchase. Allocate the asset values to provide the maximum tax impacts after purchase as possible.

	High Value	Low Value	Value for Tax Records
General building <i>20</i>	\$70,000	\$40,000	<i>40</i>
Hog feeding facility <i>10</i>	\$150,000	\$80,000	<i>80</i>
(Single purpose)			
Grain bins <i>7</i>	\$30,000	\$15,000	<i>15</i>
Breeding swine (sows) <i>3</i>	\$20,000	\$10,000	<i>20</i>
Feeder pigs <i>NW</i>	\$12,000	\$8,000	<i>12</i>
Pickup <i>5</i>	\$30,000	\$20,000	<i>23</i>
Combine <i>7</i>	\$80,000	\$50,000	<i>50</i>
Land (40 acres) <i>10</i>	\$120,000	\$70,000	<i>70</i>

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