Economics 333
Exam 2
Fall 2009

Name Key

Part I. Multiple Choice (4 pts ea). Select the best answer.

1. You are in the 40% tax bracket in 2009. The level of depreciation you claimed reduced your federal income taxes by $6,000. The level of depreciation was _____?
   a. $15,000
   b. $24,000
   c. $18,000
   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 of 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 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:
   a. the lease is simple with relatively few chances for misunderstanding.
   b. the owner is relieved of making operating decisions.
   c. the tenant has maximum freedom in planning and developing the cropping and livestock programs.
   d. the decision of whether or not to participate in government programs may be made only by the tenant.
   e. 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:
   a. seasonal distribution of labor needs.
   b. level of investment needed.
   c. variability of income.
   d. management responsibilities.
   e. All of the above.

8. You are provided the following information:

Item	Cow A	Cow B
% calf crop	90%	90%
Calf weight	500	480
Calf price	$1.00 per pound	$1.00 per pound
Number acres per cow	1.5	2.0

Given this, what is the revenue per cow for Cow A?
   a. $555.00
   b. $499.50
   c. $249.75
   d. None of the above.

9. What is the return per acre for Cow B?
   a. $480.00
   b. $432.00
   c. $288.00
   d. $240.00
   e. None of the above.

10. One measure used in many livestock enterprise records is returns per $100 feed fed. You have the following information for your hog feeding operation:

Home consumption	$1,000
Home grown feed fed	$100,000
Hog purchases	$90,000
Hog sales	$320,000
Beginning hog inventory	$130,000
Ending hog inventory	$200,000
Purchased feed fed	$30,000

Given this, the return per $100 feed fed is:

a. $246.15
b. $177.69
c. $231.54
d. $162.31
e. None of the above.
f. Can't calculate with information provided.

11. In the above example, if all of your production costs excluding feed cost were $50 per $100 feed fed you:

a. made money
b. broke even
c. lost money
d. none of the above
e. not sufficient information to determine

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

12. What was the 'total cash expense' per bushel fro corn production for the farm (#1499999)?

a. $2.44 per bushel
b. $1.78 per bushel
c. $1.82 per bushel
d. $2.36 per bushel
e. None of the above

13. What was the average number of bushels of soybeans produced per acre for the farm (#1499999)?

a. 31.2 bushels
b. 35.1 bushels
c. 40.5 bushels
d. 45.6 bushels
e. None for the above.

14. What was the return on investment for the farm (#1499999)?

a. 1.21%
b. 4.5%
c. 3.7%
d. 4.0%
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14. What was the return on investment for the farm (#1499999)?

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b. 4.5%
c. 3.7%
d. 4.0%
e. None of the above.

The following information applies to the next three questions.

15. Today, December 8, 2009, you purchased a tractor for $280,000. How much regular first year expensing can you claim in 2009? (You are filing a joint return; mid-quarter convention doesn't apply.)
    a. $134,000
    b. $125,000
    c. $250,000
    d. $25,000
    e. None of the above.

16. How much straight line depreciation can you claim on the tractor in the year 2009? (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. $40,000
    b. $56,000
    c. $28,000
    d. $35,000
    e. None of the above.

17. How much first year expensing; and regular MACRS depreciation can you claim on the tractor in 2009? (Attached tables may help.)
    a. $250,000
    b. $279,999.20
    c. $253,214.20
    d. $149,642.44
    e. None of the above.

18. Today, December 8, 2009, you have a specialized beef feeding facility finished and available for use. It costs $300,000. How much regular MACRS depreciation will you be able to claim on the feeding facility in 2009? (mid-quarter convention doesn't apply. You only use regular MACRS.)
    a. $22,500
    b. $11,250
    c. $15,000
    d. $40,975
    e. None of the above.

19. You had a general farm building constructed and ready for use as of today, December 8, 2009. It cost $250,000. How much MACRS depreciation can you claim in 2010 (next year)?
    a. $34,687.50
    b. $47,832.50
    c. $18,045.00
    d. $194,000
    e. None of the above.

20. In tax management the primary objective should be to:
    a. minimize the amount of taxes you pay.
    b. minimize your taxable income.
    c. maximize your expenses that are tax deductible.
    d. maximize your after tax income.
    e. All of the above.

21. Today, December 8, 2009, you traded your pickup truck for another pickup truck. The truck is a 'business use' truck and is depreciated. The remaining 'book value' on the traded truck is $15,000. You pay $18,000 additional cash for the new truck. The sticker value for the new truck is $39,000. Given this, how much depreciation can you claim using MACRS on the new pickup in 2009? (Mid-quarter convention doesn't apply, not using first year expensing.)
    a. $4,950
    b. $5,850
    c. $2,700
    d. $8,900
    e. None of the above.

22. When completing enterprise analysis it is necessary to allocate costs such as overhead costs to the respective enterprise. Procedures for allocating overhead costs would include:
    a. allocate according to your personal preferences or enjoyment in producing the produce.
    b. allocate according to level of international demand.
    c. allocate according to level of use for each enterprise.
    d. always split them evenly between enterprises.
    e. None of the above are methods.

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. 8, 2009. It cost $200,000. Other 3 through 20 year class life assets you purchased in 2009 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.

23. How much MACRS depreciation can you claim on the tractor in 2009?
    a. $10,714
    b. $13,393
    c. $75,000
    d. $13,124
    e. None of the above.

24. How much MACRS depreciation can you claim on the sows in 2009?
    a. $4,375
    b. $2,500
    c. $8,750
    d. $6,750
    e. None of the above.

Questions 25 through 34 are based on the information provided on the attached Balance Sheet and Income Statement for Cyclone Farms. Cyclone Farms would like some help in calculating some financial ratios.

25. What is the working capital for Cyclone Farms? (Prepare the banker.)
    a. $61,864
    b. $161,250
    c. $25,895
    d. none of the above

26. What is the current ratio for Cyclone Farms? (Prepare for the banker, use market value.)
   a. 2.09
   b. 2.63
   c. 2.20
   d. 1.75
   e. none of the above

27. What is Cyclone Farms' net farm income from farm operations?
   a. $101,263
   b. $19,328
   c. $81,935
   d. $101,644
   e. none of the above

28. What is the business asset turnover for Cyclone Farms? (Prepare for the banker.)
   a. .454 or 2.20
   b. .328 or 3.05
   c. .248 or 4.04
   d. .391 or 2.56
   e. none of the above

29. What is Cyclone Farms' business debt/asset ratio? (Prepare for the banker.)
   a. 2.20
   b. .369
   c. .454
   d. .833
   e. .496
   f. none of the above

30. Is Cyclone Farms solvent in their business?
   a. yes
   b. no
   c. can't tell with information provided.

31. What is Cyclone Farms' interest expense ratio? (Use accrual interest expense.)
   a. .046
   b. .185
   c. .175
   d. .579
   e. none of the above

32. What is Cyclone Farms' depreciation expense ratio?
   a. .082
   b. .096
   c. .086
   d. .075
   e. none of the above

33. If Cyclone Farms indicate that they have placed a value of $20,000 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; use market value, if needed.)

a. 4.16%
b. 4.89%
c. 4.41%
d. 5.76%
e. 4.58%
f. None of the above

34. If Cyclone Farms indicates they have placed a value of $20,000 on their unpaid family labor and management, what is their rate of return on farm equity? (Again, use end of year balance sheet values, if needed; use market values, if needed.)

a. 8.96%
b. -0.3%
c. -4.71%
d. 3.79%
e. 0.3%
f. none of the above

Part II. Fill in the blanks.

1. (10 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

_____ 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 333 Farm for $340,000. The assets listed below come with the purchase. Allocate the asset values to provide the maximum tax impacts as soon after purchase as possible.

	High Value		**Low Value**	**Value for Tax Records**
Sows and boars	$30,000	3yr	$20,000	30,000
Hog Feeding Facility (Single Purpose)	$130,000	10yr	$70,000	70,000
Grain Bins	$25,000	7yr	$12,000	25,000
Pickup	$20,000	5yr	$10,000	20,000
Feeder Pigs	$15,000	NOW	$10,000	15,000
Paved Lot	$40,000	15yr	$30,000	30,000
Growing Crop	$50,000	NOW	$30,000	50,000
Land (100 Acres)	$160,000	NO	$100,000	100,000

Do Not Go Beyond Here

Paper Grade _____

Course Total _____

Course Percent _____

Course Grade _____