

TERM EXAMINATION

Code:

Period:90 minutes

Name of course: . . .**Farm Management**. Course code:

Group: Semester: . 1. School year: . 2012-2013. Date:

I. Short-answer questions (30 points. There are 15 questions in this session. Students should write short answer into the answer sheet. Each corrected answer will be valued 2 points)

1. How will quick access to more information help farm managers in the 21st century make better decision?
2. List two examples of specialty agricultural markets, and the changes a conventional producer might have to make to fill them.
3. List other new challenges that you think farm managers may have to face in the 21st century.
4. What is your definition of management? Of a farm manager?
5. Do farm and ranch managers need different management skills than managers of other businesses? If so, which skills are different? Which are the same?
6. How do strategic management and tactical management differ?
7. Why are goals important? List some examples of both long -term goals for a farm. Make them measurable, and include a time line.
8. What are some common goals of farm and ranch families that might be in conflict with each other?
9. What internal characteristics of the farm should a manager consider when developing a strategic plan?
10. What are some characteristics of agriculture that make managing a farm or ranch different from managing other business?
11. Can farmers use a fiscal-year accounting period? If so, should they? Under what conditions?
12. Explain the difference between an account payable and an account receivable.
13. What products might a typical farm have in inventory at the end of a year?
14. True or false. If the debt/equity ratio increases, the debt/asset ratio will also increase.
15. Why do goals have to be set before a whole -farm plan can be developed?

II. Multiple choice questions (70 points. There are 70 questions in this session. Choose the best answer for each of the question. Marked your choices in the answer sheet. Each of corrected answer is valued 1 point.)

1. One measure of labor efficiency on a farm is:
 - a) Total labor cost for the year
 - b) Average hourly wage paid
 - c) Total number of person-years of labor used
 - d) Value of farm production per person-year
2. An amortized loan repayment plan with a “balloon” payment:
 - a) Adjusts the interest rate after each payment
 - b) Has each total payment larger than the previous one
 - c) Has more principle due in the final payment in the others
 - d) Has all the principle due in one payment
3. If a business has working capital greater than \$0, its current ratio will be
 - a) Greater than one
 - b) There is no relationship between the amount of working capital and the current ratio
 - c) Equal to one
 - d) Less than one
4. “Outside equity” to increase the total resources of a farming operation can be obtained by:
 - a) Reinvesting net farm income
 - b) Inflation in asset values
 - c) Securing funds from non-operator investors or limited partners
 - d) Long-term borrowing
5. True/False: Profit will increase any time more input is used.
 - a) True
 - b) False
6. True/False: A farm business would be considered “profitable” any year net farm income is positive.
 - a) True
 - b) False
7. True/False: Market value is the most conservative valuation method to use during periods of inflation.
 - a) False
 - b) True
8. The Value of Farm Production includes interest expense.
 - a) True
 - b) False
9. If you were to hedge your wheat in the futures market you would:
 - a) All of the aboves
 - b) Buy an option in the futures market
 - c) Buy a futures contract
 - d) Sell a futures contract
10. When preparing a cash flow budget it is important to
 - a) Take into account the timing of cash inflows and outflows
 - b) Omit family living expenses and other personal withdrawals
 - c) Include only noncash revenues
 - d) Include all noncash expenses
11. The best return to management of the following would be
 - a) Greater than the opportunity cost of management
 - b) Equal to zero
 - c) Greater than zero
 - d) Negative
12. “What managers do” is best described by which of the following?
 - a) Gather information
 - b) Analyze data
 - c) Make decisions
 - d) Organize the farm

13. Which of the following would not appear on a cash flow budget?

- a) Cost of new tractor
- b) Feed purchases
- c) Family living expenses
- d) Inventory change

14. The maxi-min strategy for choosing among risky alternatives assumes that the farm manager is most concerned with:

- a) Achieving the best possible result in a good year
- b) Minimizing the chances of suffering a loss
- c) Achieving the best possible result in a bad year
- d) Achieving a high average return

15. Which function of management is concerned with monitoring the results of a decision and taking corrective action?

- a) Organization
- b) Implementation
- c) Control
- d) Planning

16. In general terms, efficiency refers to:

- a) The volume of production generated per unit of resource utilized in the farm business
- b) The net farm income generated by the farm business
- c) The volume of resources utilized in the farm business
- d) The ratio of total liabilities to total assets in the business

17. True/False: Sometimes a farm business may have to sell productive assets to meet short-term financial commitments even though profits may be reduced in the long run.

- a) False
- b) True

18. The term of describing how much time is available to make a decision is

- a) Revocability
- b) Frequency
- c) Importance

d) Imminence

19. The degree to which a farm's liabilities are backed up by assets is known as:

- a) Liquidity
- b) Profitability
- c) Solvency
- d) Efficiency

20. Initially, the general price level is 100. If, 6 months later, the general price level is 102, the annual inflation rate has been

- a) 5 percent
- b) 12 percent
- c) 4 percent
- d) 2 percent

21. Farming systems analysis takes into account:

- a) Different types of production technology
- b) Interactions among different enterprises
- c) Specialized labor needs
- d) Possible variations in key values such as selling prices

22. In the simplest terms, a market is the interaction of

- a) goods and services
- b) wholesalers and retailers
- c) business with consumers and government
- d) supply and demand

23. True/False: Farming and ranching typically use less capital per worker than the average United States industry.

- a) False
- b) True

24. The future value of \$10,000 placed in a savings account will depend on

- a) The time it is left in the account
- b) Both the interest rate and time in the account
- c) The discount rate
- d) The interest rate

25. True/False: A single-entry accounting system does not maintain current values for assets and liabilities.

- a) False
b) True
26. Basis is the difference between
a) None of the above
b) Futures market and local market
c) Futures market from month to month
d) Cash market from month to month
27. One characteristic that makes decision making in agriculture different from other types of business is
a) More government regulation
b) Predictability of production processes
c) Fixed supply of a major resource
d) Prevalence of very large business units
28. The largest source of nonreal estate farm credit is
a) Insurance companies
b) Merchants and dealers
c) Farm Credit System
d) Commercial banks
29. True or False: In the future, farm managers will have to be concerned about the environmental effects of their practices on their own farms but not away from their own farm
a) False
b) True
30. True/False: Cash accounting will always show a lower profit than accrual accounting.
a) True
b) False
31. True or False: Goals must be known before management decisions can be made
a) False
b) True
32. True/False: Retained farm earnings cannot be negative.
a) True
b) False
33. Two similar farms could have the same return to management but different net farm income due to:
a) Differences in amount of unpaid labor and equity capital used
b) Differences in prices paid for inputs purchased
c) Differences in prices received for products sold
d) Differences in physical efficiency
34. One advantage that owning farmland has over leasing is:
a) Owner equity could increase if land values go up
b) Labor and machinery are used more efficiently
c) Less capital is tied up in long-term investments
d) The number of acres farmed is more flexible
35. A purely competitive industry is characterized by
a) a small number of large firms
b) a single seller
c) no single seller with any control over price
d) much advertising
36. True/False: All depreciation methods will result in the same total depreciation over the full life of the asset.
a) True
b) False
37. Which of the following is an example of a noncurrent liability?
a) Prepaid expense
b) Loan on farm machinery
c) Farm machinery
d) Loan on feeder livestock
38. A diminishing marginal physical product occurs because of
a) Increasing input prices
b) Decreasing output prices
c) Decreasing input prices
d) Limits on physical or biological response to increased input levels

39. If marginal physical product (MPP) is less than average physical product (APP), then APP

- a) May be doing any of the above
- b) Is constant
- c) Is decreasing
- d) Is increasing

40. The biggest problem in securing sufficient labor throughout the year on a cash grain farm is:

- a) Working conditions have become worse in recent decades
- b) There are no slack work periods
- c) Labor supply is highly variable from month to month
- d) Labor needs are highly variable from month to month

41. A major advantage of accrual accounting over cash accounting is

- a) Always shows a higher profit
- b) Simplicity
- c) Can use single entry instead of double entry
- d) A more accurate estimate of annual profit

42. Which type of lease agreement results in the most price and yield risk for the tenant?

- a) Custom farming
- b) Flexible cash
- c) Crop share
- d) Fixed cash

43. Estate planning is most concerned with the passing on the _____ of the farm to the next generation

- a) Income
- b) Management
- c) Ownership

44. In reality our system of supply and demand is often not allowed to regulate itself. Which of the following usually interferes with the system?

- a) producers
- b) resource owners

c) governments

d) consumers

45. True/False: If total asset value increases, owner equity will also increase.

- a) True
- b) False

46. A whole-farm budget analyzes:

- a) The actual costs and returns that were realized during one year for all the enterprises on a farm
- b) Costs and returns that would be affected by a specific management change
- c) Projected costs and returns for one unit of a specific enterprise
- d) Costs, returns, and resource needs for a specific set of enterprises

47. True/False: Book value will equal salvage value at the end of the asset's useful life.

- a) True
- b) False

48. True/False: There is no opportunity cost on a farm operator's own labor, only on hired labor.

- a) True
- b) False

49. Direct expenses include a value for repairs.

- a) False
- b) True

50. A depreciable asset's book value will equal its salvage value

- a) Only at the midpoint of its useful life
- b) Only on the purchase date
- c) Every year of its useful life
- d) Only at the end of its useful life

51. A statement of owner equity shows

- a) A list of all assets and liabilities
- b) The valuation adjustment for owner equity
- c) Owner equity for the past 20 years
- d) The sources and amounts of changes in owner equity

52. The Equal Marginal Principal should be used whenever

- a) A farmer wishes to maximize production from several different enterprises
- b) There is limited input and several alternative uses for it
- c) Input prices are high
- d) Output prices are low

53. The last step in constructing a cash flow budget should be

- a) Estimating family living expenses
- b) Estimating how much new current debt will be needed and can be repaid each month
- c) Estimating when payments on existing debt are due
- d) Estimating the amount of crop and livestock production for the year

54. The degree to which a farm's assets adequately secure its debts is referred to as:

- a) Solvency
- b) Liquidity
- c) Profitability
- d) Efficiency

55. True/False: An accounting system only needs to be able to record those transactions which are part of the farm's production activities.

- a) True
- b) False

56. True/False: Production should continue in the long run as long as revenue will cover all costs.

- a) False
- b) True

57. A partial budget is designed to analyze the effect of a proposed change on

- a) Liquidity of the business
- b) Business risk
- c) Accounting profit
- d) Economic profit

58. The process of finding future value of a present sum is called

- a) Amortizing
- b) Discounting
- c) Budgeting
- d) Compounding

59. Return on Farm Assets (ROA) includes a value for the operator's labor and management.

- a) False
- b) True

60. True/False: It is possible for an asset to have a \$0 salvage value.

- a) False
- b) True

61. A farmer's goal may be to have a net income ratio of 20%. He/she wants a net income of at least \$80,000. What would be the \$ target for Gross Income on the accrual adjusted basis?

- a) \$400,000
- b) none of the above
- c) \$1,600,000
- d) \$160,000

62. To be depreciable, an asset must have a useful life

- a) Five years or more
- b) More than ten years
- c) Six months or longer
- d) More than one year

63. Which of the following is not included in the revenue section of an income statement?

- a) An inventory decrease
- b) An increase in accounts receivable
- c) An increase in the market value of land
- d) Gain on the sale of breeding livestock

64. True or False: Strategic planning only needs to be done by beginning farmers and ranchers.

- a) False
- b) True

65. In a joint operating agreement, gross income is shared in proportion to each person's contribution to:

- a) Total labor
- b) Total costs
- c) Total assets
- d) Total liabilities

66. True/False: A borrower would pay more total interest on a 10-year loan amortized under an equal principal payment plan than on the same loan amortized under an equal total payment plan.

- a) True
- b) False

67. The marginal cost curve

- a) Has the same shape as a marginal revenue curve.
- b) Will eventually increase as output is increased
- c) Is constant regardless of output level
- d) Will eventually decrease as output is increased

68. On an enterprise budget, fixed costs are often called

- a) Ownership costs
- b) Operating costs
- c) Sunk costs
- d) Indirect costs

69. The number of shares of stock received by each stockholder when a farm corporation is formed is based on the _____ contributed by each stockholder.

- a) Value of labor
- b) Amount of equity
- c) Value of total liabilities
- d) Value of total costs

70. Profit is maximized somewhere in the range where a marginal physical product is

- a) Decreasing but still positive
- b) Negative
- c) Increasing but positive
- d) Constant

End.

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Note: Students are not allowed to use any references during the testing time.