

**2011 STATE FFA FARM BUSINESS MANAGEMENT TEST
PART 2**

**Financial Statements
(FINPACK Balance Sheets found in the resource information)**

Please use the **Market Value** when making the calculations for the Zimmerman Farm. Also round the number to the nearest hundredth.

	1/1/2009	1/1/2010	1/1/2011
Current Ratio	1.70	1.65	2.10
Ownership Equity	0.77	0.75	0.71
Leverage Ratio	0.26	0.33	0.42
Current Debt Ratio	0.35	0.37	0.45
Debt to Asset Ratio	0.23	0.25	0.29

Balance Sheets and Income Statement

1. The change in Net Worth from 1/1/2010 to 1/1/2011 was:
 - a. \$47,101
 - b. \$56,907
 - c. \$310,387
 - d. \$367,294

2. On which date was the Zimmerman's current ratio the weakest?
 - a. 1/1/2009
 - b. 1/1/2010
 - c. 1/1/2011

3. What is the Zimmerman Farm's Operating Profit Margin ratio for 2010 based on the Farm Income Statement from page 1 of the resource packet, assuming they purchased no feeder livestock or feed?
 - a. 0.32
 - b. 0.34
 - c. 0.37
 - d. 0.39

4. The Operating Profit Margin Ratio calculated in question 54 would be considered:
 - a. Vulnerable
 - b. Satisfactory
 - c. Strong

5. Using the 1/1/2011 Balance Sheet, calculate the the percentage of total assets that are classified as current (use market value)?
 - a. 38%
 - b. 34%

- c. 32%
 - d. 28%
6. Based on the market value balance sheet for 1/1/2011, what is the Market Valuation Equity?
 - a. \$1,371,663
 - b. \$57,201
 - c. \$28,370
 - d. \$593,790
 7. From the information on Zimmerman's Farm Income Statement, Depreciation was what percent of total farm receipts in 2010?
 - a. 6%
 - b. 8%
 - c. 10%
 - d. 12%
 8. Based on the 2010 Farm Income Statement, what percentage did the Zimmerman's pay in interest on their Average Farm Assets?
 - a. 0.9%
 - b. 1.3%
 - c. 1.7%
 - d. 2.1%
 9. The ratios and balance sheets from 1/1/2009 to 1/1/2011 show:
 - a. the farm is increasing current inventory.
 - b. the farm is carrying more current debt.
 - c. the farm has taken on more intermediate debt.
 - d. all of the above
 10. Based on the Balance sheets for 1/1/2009 and 1/1/2011, how much have the Zimmerman's increased their working capital?
 - a. \$68,465
 - b. \$227,841
 - c. \$296,306
 - d. \$364,771
 11. If the Zimmerman's defer more grain inventory next year to reduce their tax liability and increase their current assets to \$625,000, what is the maximum they can have in current liabilities if they do not want their current ratio to decrease?
 - a. \$304,415
 - b. \$297,619
 - c. \$288,905
 - d. None of the Above
 12. What could be a cause in the higher inventory change for 2010 on the Farm Income Statement?

- a. Higher Commodity Prices
 - b. Smaller Grain Inventories
 - c. Less Market Livestock
 - d. All of the Above
13. Which year had the highest Net Farm Income according to the Farm Income Statement?
- a. 2008
 - b. 2009
 - c. 2010
14. The Zimmerman's normally spend \$42,000 on Total Family Living. If they increase that spending by the same amount their off farm income increased from 2009 to 2010, which category will they fall closest to according to the information from the 2010 Region 3 Household and Personal Expenses Report?
- a. Average
 - b. Low 20%
 - c. 40 to 60%
 - d. High 20%

Projected Budget

Aaron Zimmerman has decided on the following crop and livestock program. The total bases for this farm in 2011 are 500 acres for wheat with a 32 bushel yield. Aaron also has a corn base of 500 acres with a 75 bushel program yield and a Soybean base of 425 acres with a 26 bushel program yield. The Food, Conservation, and Energy Act of 2008 rates for this year are \$.52 for wheat, \$.44 Soybeans and \$.28 for corn. The 2008 Farm Bill changed direct payments to 83.3% for 2011. Use the **Average Farm from Region 3** to determine cost.

<u>Crop</u>	<u>ACRES</u>	<u>Yield</u>	<u>Price</u>
Spring Wheat Owned	300	40 bu.	\$5.75
Soybeans, Owned	200	31 bu.	\$9.50
Soybeans, Cash Rent	750	30 bu.	\$ 9.50
Corn, Owned	300	105 bu.	\$ 3.75
Corn, Cash Rent	200	107 bu.	\$ 3.75
Alfalfa, Owned	280	1.35ton	\$ 60.00
Pasture Owned	500	1.01AUM	15.00/aum
Cows	50 head	Grossreturn/cow	\$600

15. Would the rented Corn acres cover the direct cost per acre if the rent cost was \$75/acre (don't consider government payments)?
- a. Yes
 - b. No
16. Calculate the projected return over total direct and

overhead costs using the Zimmerman's projected crop and livestock plan. Use the prices that are projected and do not include any projected government payments. (Use Region 3 **Average Profit Farms** for all farms for the crop and livestock analysis from your resource unit. Also assume the pasture costs on the livestock enterprise analysis are correct, and that all crop expenses are correct, including land rent, but use the projected prices and yields for both livestock and crops.)

- a. \$141,300
 - b. \$60,200
 - c. \$82,910
 - d. \$91,210
17. Based on the Zimmerman's Projected Budget, which crop listed below has the highest return over direct costs per acre on owned land (use the average farm on the enterprise budgets)?
- a. Corn
 - b. Alfalfa
 - c. Wheat
 - d. Soybeans
18. Based on the Zimmerman's Projected Budget, what should they do to increase their profit, assuming overhead expenses to be fixed and that they can't find additional acres?
- a. Decrease Wheat and Plant more Soybean Acres
 - b. Buy More Cows
 - c. Plant alfalfa acres to other crops and purchase hay
 - d. All of the Above
19. Using 1.5 AUM's per cow and grazing his herd for 6.0 months, it would be wise for Aaron to:
- a. Do nothing
 - b. Rent additional pasture acres
 - c. Increase the size of their cow herd
 - d. All of the above
20. If Aaron were to plant just one crop on all of his rented acres, which would give him the greatest Net Return using his projected yields?
- a. Spring Wheat
 - b. Soybeans
 - c. Corn
21. Currently the Zimmerman's could contract 70% of their corn production for \$5.65/bushel. By how much could they increase their net return on corn over their projected budget price?
- a. \$70,357

- b. \$100,516
- c. \$59,850
- d. None of the Above

Investment Analysis

The Zimmerman's have a neighbor who is considering retirement and would like them to start purchasing his land over time. He has offered them the first 360 Acres of cropland for \$875/acre and he will allow them to purchase the land with 5% down at 0% interest for 3 years with 7% interest on the remaining 12 years of a 15 year Contract for Deed. The Zimmerman's are very interested but decided to also check with their local bank, and found they can purchase the land with 10% down and finance the rest for 25 years at a 4% fixed rate. The taxes on the land are \$4.00 per acre. In either case, Aaron has the cash on hand to make the required down payment and expects no immediate return on those dollars.

22. What will the yearly payment be for the first 3 years on the contract for deed option, not including taxes?
 - a. \$18,750
 - b. \$19,950
 - c. \$22,800
 - d. \$24,938

23. What will the yearly payment for the last 12 years be on the contract for deed option, not including taxes?
 - a. \$38,933
 - b. \$37,933
 - c. \$37,676
 - d. \$32,828

24. What will the yearly payment be on the Bank Financing Option, not including taxes?
 - a. \$18,144
 - b. \$20,736
 - c. \$24,324
 - d. \$36,736

25. Which option costs the least overall?
 - a. Contract for Deed
 - b. Bank Financing

26. For the first 3 years with the Contract for Deed Option, the total payment per acre including real estate taxes would be:
 - a.\$56.08
 - b.\$67.61
 - c.\$73.27
 - d.\$59.42

27. Assuming Aaron plants the 360 Acres to Soybeans, will his net return per acre be high enough to cover his payment for the least cost option (use 30 bushel yield at \$9.50 and Region 3 Average of All Farms Soybeans on Owned Land)?
 - a. Yes
 - b. No

28. What potential risks would the Zimmerman's take if they financed the land using the Contract for Deed Option?
- a. There is no risk, it is the cheapest option
 - b. Commodity prices are unknown especially for the years when the payments are the highest
 - c. Aaron won't be gaining equity
 - d. Either a or c

In order for Aaron to efficiently harvest everything, including the extra cropland purchased above in a timely manner, he needs to purchase a larger combine. The Zimmerman's do not have a bias towards any brand of equipment and prefer to purchase based on the best available deal. One dealership is offering them a brand new machine priced at \$300,000 with a 7 year, 4% financing option. Another dealership has a year old machine returned from a lease with 300 hours on it for \$250,000, and will finance it for 5 years at 6%. Aaron will get \$95,000 on a trade for his old combine from both places and is planning on using that as his only money down.

29. Which Combine will have the lowest payment each year?
- a. New
 - b. Used
30. When Aaron trades combines in 7 years, the new combine will be worth 120,000 and the used combine will be worth \$90,000, at that point, assuming repairs have been equal, which combine will have potentially had the least cost?
- a. New
 - b. Used
31. Instead of buying a different combine, Aaron could have his additional 360 acres custom harvested. How much per acre for those 360 acres would he be able to pay for the custom work and still have a lower total cost than the lowest yearly combine payment assuming \$4 an acre for fuel if he buys a combine?
- a. \$100
 - b. \$91
 - c. \$88
 - d. \$82
32. The Zimmerman's could also sell their old combine and lease a new combine for \$195/hour. If Aaron can harvest 12 acres an hour how much will the machine lease be for him to combine his 1750 original acres plus his additional 360 acres?
- a. \$28,437
 - b. \$20,437
 - c. \$22,750
 - d. \$34,287

33. Considering both purchasing options as well as the lease option and not taking into account resale value, which option costs the least over 7 years if they get \$95,000 for their old combine on the lease option as well?
- a. New
 - b. Used
 - c. Lease

Projected Cash Flow In Resource Unit

34. Does Aaron Zimmerman's Farm Cash Flow for 2011:
- a. Yes
 - b. No
35. If there is a 10% increase in expenses over the year, how will it impact Aaron's projected Net Farm Income for 2011?
- a. -\$48,375
 - b. -\$84,197
 - c. \$78,317
 - d. Won't change it at all
36. What is the Zimmerman's projected Net Cash Flow for 2011?
- a. \$72,722
 - b. \$84,197
 - c. \$78,317
 - d. -\$87573
37. What is the Zimmerman's 2011 projected Net Farm Income?
- a. \$78,317
 - b. \$72,427
 - c. \$284,856
 - d. \$788,614
38. With a term debt coverage ratio of 3.01, can Aaron be confident when taking this plan to his bank to secure his 2011 Line of Credit for Operating?
- a. Yes
 - b. No

Family Living

Use the information in the resource information section to answer the questions.

39. Based on the total family living excluding Other non-farm expenditures for region 3, does the Zimmerman's cash flow for family living fall closest to?
- a. Low 20%
 - b. High 20%
 - c. The average Farm
 - d. 40-60%
40. Total cash family living and investments for the Average of

all farms in region 3 was:

- a. \$77,387
- b. \$48,876
- c. \$36,353
- d. \$47,070

41. How many acres of corn would Aaron Zimmerman have to raise in order to pay for the average of all farms total family living? Use the Region 3 data for Household and Personal expenses as well as corn on rented land. Use net return per acre.
- a. 210 Acres
 - b. 313 Acres
 - c. 175 Acres
 - d. 193 Acres

MARKETING

Use the information in the Resource Information Section. Assume a negative \$0.65 per bushel nearby basis and a negative \$0.85 new crop basis for Soybeans, a \$0.02 per bushel commission for futures, and a \$0.04 per bushel per month carrying charge. Carrying charge would start on October 15. Commission on feeder cattle is \$2.50/cwt for options and futures and a positive \$5/cwt basis for the feeder cattle. The commission for selling the calves at the local auction is \$14.00/head. On April 21, 2011, the Zimmerman's had 2500 bu. of 2010 Corn, 11,500 bu. Of 2010 Wheat, and 6500 bu. Of 2010 Soybeans on Hand. Their projected production for 2010 will give them an additional 28,700 bushels of Soybeans and 52,900 bushels of Corn to sell. Aaron will raise 50 calves that will be weaned on November 1 and will average 585 lbs, and he will background his calves, taking them to 800 lbs before they are sold at the local auction.

42. Where is the best option for Aaron to sell his old crop wheat if it costs him 5 cents per bushel per mile to haul it?
- a. Woodworth Farmer's Grain
 - b. Fessenden Coop
 - c. Country Grain Cooperative in Cleveland
 - d. Country Grain Cooperative in Eldridge
43. How many Soybean Contracts would Aaron need to purchase to cover his projected production yields if he is covered at 80%?
- a. 2
 - b. 3
 - c. 4
 - d. 5
44. Aaron wants to price some of his 2011 corn crop. Currently his marketing service is recommending he be 50% sold on new crop corn. If he were to follow their recommendation using the futures chart on page 45, what price could he lock in for December on those bushels assuming a -95 cent basis?
- a. \$5.62

- b. \$5.65
- c. \$5.59
- d. \$6.59

45. What price can the Zimmerman's lock in on their feeder calves if they want to sell them in March?

- a. \$135.95
- b. \$137.75
- c. \$136.00
- d. \$135.25

46. If Aaron were to use futures to retain ownership of his cattle until slaughter, what price could he lock in for live cattle in June 2012 that were delivered directly to the packing plant?

- a. \$118.30/cwt
- b. \$120.80/cwt
- c. \$123.30/cwt
- d. \$115.80/cwt

47. If Aaron were to sell a November 2011 Soybean Contract today to price his grain, and buy that contract back at harvest time when the contract has dropped to \$12.55, how much will he make on that one contract

- a. \$5550
- b. \$5450
- c. \$5350
- d. \$5250

INCOME TAX

Based on the Zimmerman's Federal Tax Schedule found in the resource packet:

48. What is their gross farm income?

- a. \$545,045
- b. \$650,382
- c. \$49,276
- d. Cannot tell from the schedule F

49. Did the Zimmerman's use the maximum amount of allowable Section 179 Expense?

- a. Yes
- b. No
- c. You can't tell by looking only at the Schedule F

50. How Much will the Zimmerman's owe in Federal Taxes for 2010?

- a. \$4,087
- b. \$646,295
- c. They Will Get a Refund
- d. You can't tell by looking only at Schedule F

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2. On which date was the Zimmerman's current ratio the weakest?
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Aaron Zimmerman has decided on the following crop and livestock program. The total bases for this farm in 2011 are 500 acres for wheat with a 32 bushel yield. Aaron also has a corn base of 500 acres with a 75 bushel program yield and a Soybean base of 425 acres with a 26 bushel program yield. The Food, Conservation, and Energy Act of 2008 rates for this year are \$.52 for wheat, \$.44 Soybeans and \$.28 for corn. The 2008 Farm Bill changed direct payments to 83.3% for 2011. Use the **Average Farm from Region 3** to

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15. Would the rented Corn acres cover the direct cost per acre if the rent cost was \$75/acre (don't consider government payments)?

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16. Calculate the projected return over total direct and overhead costs using the Zimmerman's projected crop and livestock plan. Use the prices that are projected and do not include any projected government payments. (Use Region 3 **Average Profit Farms** for all farms for the crop and livestock analysis from your resource unit. Also assume the pasture costs on the livestock enterprise analysis are correct, and that all crop expenses are correct, including land rent, but use the projected prices and yields for both livestock and crops.)

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- b. \$60,200
- c. **\$82,910**
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17. Based on the Zimmerman's Projected Budget, which crop listed below has the highest return over direct costs per acre on owned land (use the average farm on the enterprise budgets)?

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- a. \$100
- b. **\$91**
- c. \$88
- d. \$82

32. The Zimmerman's could also sell their old combine and lease a new combine for \$195/hour. If Aaron can harvest 12 acres an hour how much will the machine lease be for him to combine his 1750 original acres plus his additional 360 acres?

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Projected Cash Flow In Resource Unit

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- a. **Yes**
 - b. No
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- b. 313 Acres
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- d. 193 Acres**

MARKETING

Use the information in the Resource Information Section. Assume a negative \$0.65 per bushel nearby basis and a negative \$0.85 new crop basis for Soybeans, a \$0.02 per bushel commission for futures, and a \$0.04 per bushel per month carrying charge. Carrying charge would start on October 15. Commission on feeder cattle is \$2.50/cwt for options and futures and a positive \$5/cwt basis for the feeder cattle. The commission for selling the calves at the local auction is \$14.00/head. On April 21, 2011, the Zimmerman's had 2500 bu. of 2010 Corn, 11,500 bu. Of 2010 Wheat, and 6500 bu. Of 2010 Soybeans on Hand. Their projected production for 2010 will give them an additional 28,700 bushels of Soybeans and 52,900 bushels of Corn to sell. Aaron will raise 50 calves that will be weaned on November 1 and will average 585 lbs, and he will background his calves, taking them to 800 lbs before they are sold at the local auction.

42. Where is the best option for Aaron to sell his old crop wheat if it costs him 5 cents per bushel per mile to haul it?

- a. Woodworth Farmer's Grain**
- b. Fessenden Coop
- c. Country Grain Cooperative in Cleveland
- d. Country Grain Cooperative in Eldridge

43. How many Soybean Contracts would Aaron need to purchase to cover his projected production yields if he is covered at 80%?

- a. 2
- b. 3
- c. 4

d. 5

44. Aaron wants to price some of his 2011 corn crop. Currently his marketing service is recommending he be 50% sold on new crop corn. If he were to follow their recommendation using the futures chart on page 45, what price could he lock in for December on those bushels assuming a -95 cent basis?

- a. **\$5.62**
- b. \$5.65
- c. \$5.59
- d. \$6.59

45. What price can the Zimmerman's lock in on their feeder calves if they want to sell them in March?

- a. \$135.95
- b. \$137.75
- c. **\$136.00**
- d. \$135.25

46. If Aaron were to use futures to retain ownership of his cattle until slaughter, what price could he lock in for live cattle in June 2012 that were delivered directly to the packing plant?

- a. **\$118.30/cwt**
- b. \$120.80/cwt
- c. \$123.30/cwt
- d. \$115.80/cwt

47. If Aaron were to sell a November 2011 Soybean Contract today to price his grain, and buy that contract back at harvest time when the contract has dropped to \$12.55, how much will he make on that one contract

- a. \$5550
- b. **\$5450**
- c. \$5350
- d. \$5250

INCOME TAX

Based on the Zimmerman's Federal Tax Schedule found in the resource packet:

48. What is their gross farm income?

- a. \$545,045
- b. **\$650,382**
- c. \$49,276

d. Cannot tell from the schedule F

49. Did the Zimmerman's use the maximum amount of allowable Section 179 Expense?

a. Yes

b. No

c. You can't tell by looking only at the Schedule F

50. How Much will the Zimmerman's owe in Federal Taxes for 2010?

a. \$4,087

b. \$646,295

c. They Will Get a Refund

d. You can't tell by looking only at Schedule F