

**2012 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.

	1/1/2010	1/1/2011	1/1/2012
Current Ratio	1.65	2.10	1.32
Ownership Equity	0.75	0.71	0.69
Leverage Ratio	0.33	0.42	0.46
Current Debt Ratio	0.37	0.45	0.52
Debt to Asset Ratio	0.25	0.29	0.31

Balance Sheets and Income Statement

1. The change in Net Worth from 1/1/2011 to 1/1/2012 was:
 - a. \$191,791
 - b. -\$191,791
 - c. \$135,777
 - d. -\$135,777

2. Which Ratio has the most negative change from 2011 to 2012?
 - a. Current Ratio
 - b. Current Debt Ratio
 - c. Leverage Ratio
 - d. Debt to Asset Ratio

3. On which date was the Zimmerman's current ratio the weakest?
 - a. 1/1/2010
 - b. 1/1/2011
 - c. 1/1/2012

4. What is the Zimmerman Farm's Operating Profit Margin ratio for 2011 based on the Farm Income Statement from page 1 of the resource packet, assuming they purchased no feeder livestock or feed?
 - a. 0.29
 - b. 0.34
 - c. 0.36
 - d. 0.39

5. The Operating Profit Margin calculated in question 4 categorized as:
 - a. Vulernable
 - b. Intermediate
 - c. Strong

6. Using the 1/1/2012 Balance Sheet, calculate the the percentage of total assets that are classified as intermediate(use market value)?
 - a. 58%
 - b. 50%
 - c. 46%
 - d. 40%

7. From the information on Zimmerman's Farm Income Statement, Depreciation was what percent of total farm receipts in 2011?
 - a. 2.6%
 - b. 4.3%
 - c. 5.4%
 - d. 6.7%

8. Since Depreciation is not an actual cash expense, what would be the best recommendation for a way for the Zimmerman's to use that money?
 - a. Save it for equipment replacement
 - b. Use it for family living
 - c. Use it to prepay input expenses for the next year
 - d. None of the above

9. The ratios from 1/1/2010 to 1/1/2012 indicate what possible scenarios:
- a. the farm is decreasing 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 1/1/2011 and 1/1/2012, how much have the Zimmerman's decreased their farm working capital?
- a. \$205,106
 - b. \$204,857
 - c. \$204,426
 - d. \$203,998
11. What is a possible reason for the decrease in the Zimmerman's working capital from 1/1/2011 to 1/1/2012?
- a. Poor Crop Yields
 - b. Increased Operating Loan Balance
 - c. Both A & B
 - d. None of the Above
12. Which year had the Highest Net Farm Income according to the Farm Income Statement?
- a. 2009
 - b. 2010
 - c. 2011

Projected Budget

Aaron Zimmerman has decided on the following crop and livestock program. The total bases for this farm in 2012 are 500 acres for wheat with a 32 bushel yield. Aaron also has a Barley base of 500 acres with a 75 bushel program yield and a Canola base of 425 acres with a 1200 pound 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 2012. Use the **Average Farm from Region 2** to determine cost.

<u>CROP</u>	<u>ACRES</u>	<u>Yield</u>	<u>Price</u>	<u>Gross Income</u>	<u>Cost</u>	<u>Net Income</u>
Spring Wheat Owned	200	36 Bu.	\$8.20			
Spring Wheat Rented	200	35 Bu.	\$8.20			
Canola Owned	300	13 CWT.	\$24			
Canola Rented	400	13.5 CWT.	\$24			
Barley Owned	300	72 Bu.	\$7			
Barley Rented	450	75 Bu.	\$7			
Hay, Mixed Alfalfa/Grass Owned	280	1.52 Tons	\$45/Ton			
Pasture Owned	500	1.08 AUM's	\$18/AUM			
Cows	50 Head	Gross Retun	\$930/Cow			

13. 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 2 **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. \$267,893
- b. \$267,532
- c. \$264,269
- d. \$260,400

14. Would the rented Barley acres cover the direct cost per acre if the rent cost was \$75/acre (don't consider government payments)?
- a. Yes
 - b. No
15. 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. Barley
 - b. Pasture
 - c. Wheat
 - d. Canola
16. 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 Barley
 - b. Decrease Canola and Plant more Barley
 - c. Buy more Cows
 - d. All of the Above
17. Since Mr. Zimmerman is no longer a spring chicken, he is looking at decreasing his labor load by selling his cattle. If he was to do this and plant his alfalfa acres to canola, and rent out the pasture for \$21/acre, could he increase his total profit (Use Region 2 data for the average farm for expenses)?
- a. Yes
 - b. No
 - c. Maybe
 - d. Can't tell from the information given
18. If Aaron were to background his calves, would a \$110 increase in the value of the calf cover his direct and overhead expenses?
- a. Yes
 - b. No

19. 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. Canola
 - c. Barley
20. Currently the Zimmerman's could contract 70% of their total Barley production for \$7.50/bushel. By how much could they increase their net return on barley over their projected budget price?
- a. \$7,560
 - b. \$9,201
 - c. \$11,813
 - d. \$19,373

Investment Analysis

The Zimmerman's have the opportunity to rent an additional 160 acres of crop land for the upcoming year. Their potential new landlord has given them the following 3 options for rent. The first option is to pay a straight cash rent of \$50/acre. The second option is a flex rent where he will pay \$40/acre plus or minus \$10 for every \$30 dollars above or below \$300/acre in gross return. The last option is to do a 75/25 share on the gross return.

21. If Aaron plants wheat and gets a yield of 45 bushels an acre and a price of \$8/bushel, which is their cheapest option?
- a. Straight Cash
 - b. Flex Rent
 - c. Share Rent
22. In the above question what will the flex rent cost per acre?
- a. \$40
 - b. \$50
 - c. \$60
 - d. \$90

23. If it is a dry summer and Aaron's wheat yield drops to 20 bushels per acre which is the most expensive option?
- Straight Cash
 - Flex Rent
 - Share Rent
24. If Aaron's total cost of production on Wheat is \$230 per acre before he pays rent, can he profit on this additional land using the flex rent if he has a historic yield average of 38 bushels/acre and a forward contract for 7.25/bushel?
- Yes
 - No
 - Not enough information
25. Which rent option creates the least amount of risk for Aaron:
- Straight Cash
 - Flex Rent
 - Share Rent
 - It varies by crop and price
26. Instead of renting, Aaron could also purchase the land for \$1000/acre. He would be able to put 20% of the purchase price down and finance the rest at 4% for 30 years. If he expects no immediate return on his down payment, would his payment be cheaper than the straight cash rent option?
- Yes
 - No

Aaron has come across some additional pasture and hay land. In order to utilize it he would have to purchase 100 additional cows. He talked to his banker and there are a couple of different options he could use to finance the additional cattle purchase. Since he already owns some cattle with no loans against them, he could finance the full purchase amount of \$1600/bred heifer for 5 years at a rate of 6%. If he were to put down 10% of the purchase value he could finance the remainder for 5 years at 5%. Finally he could choose to put 20% down and finance the remainder for 4 years at 4%

27. Which option will have the lowest payment each year?
- a. Finance 100%
 - b. 10% Down
 - c. 20% Down
28. Which option has the least total cost?
- a. Finance 100%
 - b. 10% Down
 - c. 20% Down
29. Using the average net return per cow for Region 2, would Aaron make enough per cow to cover his payment on the 10% down option?
- a. Yes
 - b. No
 - c. Not sure
30. If Aaron could contract his 750 pound calves for 1.55 per pound, could he make enough over the Region 2 total direct and overhead expenses per cow to cover his payments on the 100% financed options?
- a. Yes
 - b. No
 - c. Not sure
31. How much would Aarons payment be on the 10% down option if he has to pay \$1800/bred heifer?
- a. \$35,101
 - b. \$36,232
 - c. \$37,406
 - d. \$38,343

Projected Cash Flow In Resource Unit

32. Does Aaron Zimmerman's Farm Cash Flow for 2012:
- a. Yes
 - b. No
33. What month begins with the highest Operating Loan Balance:
- a. August
 - b. September
 - c. October
 - d. November
34. If there is a 10% increase in expenses over the year, how will it impact Aaron's projected Net Farm Income for 2012?
- a. Change Term Debt Coverage Ratio to 1.57
 - b. Change Term Debt Coverage Ratio to 1.86
 - c. Change Term Debt Coverage Ratio to 2.08
 - d. Won't change it at all
35. What is the Zimmerman's projected Net Cash Flow for 2012?
- a. \$71,083
 - b. \$218,586
 - c. \$165,663
 - d. \$111,904
36. What is the Zimmerman's 2012 projected Net Farm Income?
- a. \$71,083
 - b. \$165,663
 - c. \$220,443
 - d. \$218,586
37. What will happen to Aaron's Operating Loan Balance from the beginning to the end of 2012 according to the Cash Flow Plan?
- a. Increase by \$77283
 - b. Decrease by \$77283
 - c. Increase by \$107717
 - d. Can't tell from the information available

Family Living

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

38. Based on the total family living excluding Other non-farm expenditures for region 2, 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%
39. Total cash family living and investments and non-farm capital purchases for the Average of all farms in Region 2 was:
- a. \$69,181
 - b. \$85,691
 - c. \$40,629
 - d. \$109,653
40. How many cows would Aaron Zimmerman have to have in order to pay for the average of all farms total family living? Use the Region 2 data for Household and Personal expenses as well as Beef Cow Calf. Use net return per cow.
- a. 343
 - b. 563
 - c. 245
 - d. 207

MARKETING

Use the information in the Resource Information Section. Assume a negative \$0.10 per bushel nearby basis and a negative \$0.65 new crop basis for Spring Wheat, a \$0.02 per bushel commission for futures, and a \$0.05 per bushel per month carrying charge. Carrying charge would start on October 1st. Commission on feeder cattle is \$2.50/cwt for options and futures and an even basis for the feeder cattle. The commission for selling the calves at the local auction is \$14.00/head. On April 23, 2012, the Zimmerman's had 25000 bushels of wheat on hand. Their projected production for 2012 will give them an additional 28,700 bushels of Wheat and 1500 cwt. of Canola to sell. Aaron will raise 50 calves that will be weaned on November 1 and will average 605 lbs, and he will background his calves, taking them to 850 lbs before they are sold at the local auction.

41. If Aaron contracts his wheat at Rugby Farmer's Elevator, what price can he lock in for his 2012 crop?
- a. \$7.81
 - b. \$7.23
 - c. \$7.71
 - d. \$7.87
42. A month ago, Aaron could have sold his old crop cash wheat in Rugby for 7.90, if he hauls it in today, how will the value of his grain have changed?
- a. \$-.12
 - b. \$-.13
 - c. \$-.09
 - d. \$+.01
43. What price can the Zimmerman's lock in on their feeder calves if they want to sell them in March?
- a. \$133.55
 - b. \$150.05
 - c. \$147.55
 - d. \$136.05

44. How many futures contracts would Aaron need to sell to price 75% of his anticipated Wheat production for 2012?
- a. 2
 - b. 3
 - c. 4
 - d. 5
45. It would take 100 days on feed from April to June for the Zimmerman's cattle to gain 450 lbs and finish at 1300 lbs. He can contract the finished cattle for \$121/cwt Assuming the trucking costs are the same, no basis on the live cattle price, and a \$3.60 cost per day to feed them, is there any added value in retaining ownership?
- a. Yes
 - b. No
 - c. None of the Above
46. Aaron sells a September 2012 Spring Wheat Contract today and at harvest time at the end of August, he buys the contract back at a price of 7.20, assuming the basis for new crop stays at the expected 65 under, what price has he locked in for that 5000 bushels of wheat?
- a. \$7.88
 - b. \$7.54
 - c. \$7.23
 - d. \$7.20

INCOME TAX

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

47. What are their total farm expenses?
- a. \$652,615
 - b. \$612,563
 - c. \$602,445
 - d. Cannot tell from the schedule F

48. What is their Net Farm Profit or Loss for taxes?
- a. \$652,615
 - b. \$128,005
 - c. \$40,052
 - 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. \$40,052
 - b. \$60,500
 - c. They Will Get a Refund
 - d. You can't tell by looking only at Schedule F

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Projected Cash Flow In Resource Unit

32. Does Aaron Zimmerman's Farm Cash Flow for 2012:
- a. **Yes**
 - b. No
33. What month begins with the highest Operating Loan Balance:
- a. August
 - b. **September**
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 - d. November
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 - c. Increase by \$107717
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Family Living

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

38. Based on the total family living excluding Other non-farm expenditures for region 2, does the Zimmerman's cash flow for family living fall closest to?
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 - b. No
 - c. None of the Above
46. Aaron sells a September 2012 Spring Wheat Contract today and at harvest time at the end of August, he buys the contract back at a price of 7.20, assuming the basis for new crop stays at the expected 65 under, what price has he locked in for that 5000 bushels of wheat?
- a. \$7.88
 - b. \$7.54
 - c. \$7.23**
 - d. \$7.20

INCOME TAX

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

47. What are their total farm expenses?
- a. \$652,615
 - b. \$612,563**
 - c. \$602,445
 - d. Cannot tell from the schedule F

48. What is their Net Farm Profit or Loss for taxes?
- a. \$652,615
 - b. \$128,005
 - c. \$40,052**
 - 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. \$40,052
 - b. \$60,500
 - c. They Will Get a Refund
 - d. You can't tell by looking only at Schedule F**