

FFA Farm Business Management
Career Development Event

State Preliminary

January, 2007

PART I

100 Points
1 Hour

For each question choose the best answer. All answers are rounded off to two decimal places. Because of rounding errors and/or alternative computational techniques, your answer may be a penny or two different from the choice given. Don't let this bother you--choose the best answer. Each question is worth 4 points.

Your test packet should include questions 1-25.

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1. What is the balancing equation for the balance sheet?
 - a. *assets = liabilities + stockholders' equity
 - b. revenue – expenses= net income
 - c. assets + stockholders' equity = liabilities
 - d. assets + liabilities = stockholders' equity

2. The nominal interest rate is:
 - a.* the observed interest rate.
 - b. the rate of inflation minus the observed interest rate.
 - c. the observed interest rate minus the internal rate of return.
 - d. the observed interest rate minus the rate of inflation.

3. An amortized loan with equal total payments will have:
 - a. a decreasing amount of principal paid in each successive payment.
 - b. the same amount of principal paid in each payment.
 - c. the same amount of interest in each payment.
 - d. *a decreasing amount of interest paid in each successive payment.

4. A summary of the financial situation for a business at a point in time is a/an:
 - a.*balance sheet.
 - b. income statement.
 - c. partial budget.
 - d. benefit/cost ratio.

5. A higher discount rate implies a _____ present value.
 - a.*lower.
 - b. higher.
 - c. negative.
 - d. none of the above.

6. The price of one country's currency in terms of another country's currency is:
 - a. balance of payments.
 - b.*exchange rate.
 - c. comparative advantage.
 - d. tariff.

7. Which of the following will change the current ratio for a firm?
 - a. *purchase of land using cash.
 - b. transfer of cash to a savings account.
 - c. collection of an accounts receivable.
 - d. none of the above.

8. The balance sheet for H. P. Farmer has total assets of \$760,000, total liabilities of \$468,000; H. P. Farmer is:
 - a. insolvent.
 - b. profitable.
 - c.*solvent.
 - d. illiquid.

9. Which of the following is NOT a technique for raising farm prices above the market equilibrium level?
 - a.*price ceiling.
 - b. import tariffs.
 - c. price floor or price support programs.
 - d. all of the above raise prices.

10. Which of the following is NOT a decision faced by a firm in a perfectly competitive industry?
 - a. how much to produce?
 - b.*what price to charge?
 - c. how to produce?
 - d. how much of each input to use?

11. The statement of cash flows segregates cash inflows and cash outflows by:
- operating and financing activities.
 - financing and investing activities.
 - *operating, financing and investing activities.
 - operating and investing activities.
12. The process of compounding is the inverse of:
- amortizing.
 - * discounting.
 - present value.
 - annualizing.
13. What is a common-size balance sheet?
- a statement that expresses each account on the balance sheet as a percentage of net income.
 - a statement that is common to an industry.
 - a statement that expresses each asset account on the balance sheet as a percentage of total assets. and each liability account on the balance sheet as a percentage of total liabilities.
 - *a statement that expresses each account on the balance sheet a percentage of total assets.
14. How are costs of assets that benefit a firm for more than one year allocated?
- depreciation
 - amortization
 - costs are divided by service lives of assets and allocated to repairs
 - *both a and b
15. Which of the following is NOT considered a current liability?
- * accounts receivable.
 - the interest and principal due this year on the real estate mortgage.
 - accounts payable.
 - taxes due this year.

16. Marginal cost:
- a. is the increase in total cost resulting from producing one more unit.
 - b. is the average cost of production.
 - c. will be equal to an increase in total variable cost resulting from producing one more unit.
 - d. *a and c.
17. What do current assets and current liabilities have in common?
- a. current assets are claims against current liabilities.
 - b. if current assets increase there will be a corresponding increase in current liabilities.
 - c. current assets and current liabilities are converted into cash.
 - d. *current liabilities and current assets are those items that will be satisfied and converted into cash, respectively.
18. The cost that is measured by the income a productive factor would receive in its best alternative employment is:
- a. basis.
 - b. marginal cost.
 - c. salvage value.
 - d. *opportunity cost.
19. Which of the following will be least likely to cause a shift in the supply curve for Florida oranges?
- a. an increase in harvestable acreage.
 - b. a January freeze in Florida.
 - c. an increase in the price of labor used to harvest oranges.
 - d. *a decrease in the price of oranges.
20. All possible combinations between a variable input and the output being produced is called:
- a. a cost function.
 - b. a variable cost function.
 - c. a profit function.
 - d. *a production function.

21. A price and quantity pattern that repeats every year is an example of:
- a.*a seasonal pattern.
 - b. a cycle.
 - c. a trend.
 - d. a technical.
22. A risk management marketing tool involving the substitution of a futures market transaction for a cash transaction is:
- a. speculation.
 - b.*a hedge.
 - c. an option.
 - d. a margin call.
23. A farm's demand curve for its product:
- a. is the same as the market demand curve.
 - b. is negatively sloped.
 - c.* is the market price.
 - d. is the same as the farm's total revenue curve.
24. The type of business where the owners of the business may not be liable for the debts of business is a:
- a. partnership.
 - b.*corporation.
 - c. sole proprietorship.
 - d. all the above.
25. The FASB is:
- a. the Fixed Asset Salvage Basis.
 - b. the Foreign Agency for Securitization Benchmarking.
 - c.*the Financial Accounting Standard Board.
 - d. the Farm Allowance for Stock Breeders.