



Exam #2 Review

AAE 320

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Exam #2: Monday November 9, 2020

- Available as Word Document 9:00 AM to 11:59 PM on Canvas page as assignment, on Main class page for download and emailed to you
- **Submit answers as Word Document on Canvas by 11:59 PM**
 - Add clear scans/photos for potential partial credit for quantitative answers
 - Suppose you type “ROROA = 5.7%”, but if correct answer is 6.5%, will look at work to see if you earn partial credit: if right method, but made a simple mistake, will get some partial credit

Exam #2

- 1. Quantitative Questions (math problems to work out)
 - Problem sets: balance sheets, income statements, depreciation, taxes
 - Basically an extended problem set
- 2. Context questions on Quantitative Questions
 - Give short written answers on terms, interpret results
- 3. Non-Quantitative Questions
 - Write short paragraph or few sentences, space provided will guide you
 - Expect questions asking for answers that are longer than on older exams: you have more time & access to more information
 - Questions from materials and issues discussed in class
 - Readings, videos, small groups, assignment sheets, ...

What's Covered?

- Major topics since last exam
- 1) Farm Finance: Balance Sheets, Income Statements
- 2) Taxes, Business Arrangements and Farm Transfer
- Posted old Exams #2 over similar topics, plus answers
 - Sometimes material ordered differently

Balance Sheets

- Basic structure and how to read one
- Know what current, non-current assets and liabilities are (basic definitions)
 - Be able to give simple examples of each
- Asset Valuation
 - Market vs Cost basis: be able to explain advantages & weaknesses, why you might want to use each

Depreciation

- What it is and why do it
- How to depreciate an asset by the three methods we covered
 - Straight line, Declining balance, Tax table
 - Problems with declining balance and salvage value
 - Tax depreciation a mix of DB and SL
 - Tax depreciation and section 179 depreciation
- Think Breaks, Problem Sets, Old Exams

Balance Sheets

- Liquidity and Solvency:
 - Basic definitions, How are they assessed/measured?
- Know how to calculate and interpret ratios: Current Ratio, Debt to Asset, Equity to Asset and Debt to Equity Ratios
- Basic idea of what's "typical" in Midwest crop/livestock farming, why some are low and some are high
- Interpret aggregate trends in the industry data
 - What they mean for farming sector's financial health

Income Statement

- Basic structure and how to read one
- Examples of cash and non-cash revenues and costs
 - Accounts receivable, inventory changes, depreciation recapture vs. depreciation and accounts payable
- Why farms may want to do accrual adjustments of income statement
 - Move costs/revenues to season when grown
 - How much income did I make in 2019?
 - How much income did I make from my 2019 corn crop?

Income Statement

- Know how to calculate and interpret
 - Net Farm Income (Accrual Adjusted NFI)
 - (Rate of) Return on Assets
 - (Rate of) Return on Equity
 - Operating Profit Ratio/Profit Margin
- Think Breaks/class notes, Problem Sets, old Exams for examples
- Basic idea of what's "typical" in Midwest crop/livestock farming
- Interpret aggregate trends in the industry data
 - What they mean for farming sector's financial health

Taxes

- Focus on the issues that stay the same, not the details that vary
- Our focus: Income, self-employment, capital gain, gift taxes
- Basics of how these work and pertain to farmers
 - Revenue, Schedule F costs, depreciation and depreciation recapture, capital gains
 - Tax advantages of section 179 depreciation and cash versus accrual accounting

Taxes and Farm Transfer

- How to calculate gain: = Sale Price – Basis
- What triggers recognizing gain?
 - Sell/buy or give/receive assets???
 - Contribute to or remove from Partnership, LLC, Corporation???
- Why does Basis change?
 - Death, depreciation, sale, gift???
- Gift taxes: what triggers and who pays?

Business Arrangements and Asset Transfers

- Types of Business Arrangements
 - Sole proprietor, partnership, corporation (C or S), limited liability company (LLC)
- Main differences among them
 - Establishment: how do you form one?
 - Management: who makes decisions?
 - Taxation: how does it deal with income taxes and does it trigger recognition of gain?
 - Liability: are owners' personal assets at risk?

Final Topics

- Inelasticity in Agriculture
 - Great for true/false or short answer
- Let's Talk: Dairy Farming in WI
- Data on typical financial ratios for farms
- Income tax forms

Exam Preparation

- Know where to find things we covered in class
- What's covered where: pre-recorded lectures, recorded live lectures, problem sets, other materials
- Treat it like a work project: get it done and move on
- Contact me with questions or problems/crises that arise
- Cell: 608-320-1162 text or call
- Email: pdmitchell@wisc.edu