

Farm and Agribusiness Management CDE Practice Test (Sample)

Study Guide



Everything you need from our exam experts!

This is a sample study guide. To access the full version with hundreds of questions,

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Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- Practice answering questions under realistic conditions,
- Improve accuracy and speed,
- Review explanations to strengthen weak areas, and
- Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

How to Use This Guide

This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:

1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Don't worry about getting everything right, your goal is to identify knowledge gaps early.

2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 - 45 minutes). Review a handful of questions, reflect on the explanations, and take breaks to retain information better.

3. Learn from the Explanations

After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.

4. Track Your Progress

Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.

5. Simulate the Real Exam

Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.

6. Repeat and Review

Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning.

7. Use Other Tools

Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly — adapt the tips above to fit your pace and learning style. You've got this!

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Questions

- 1. If a loan is secured to an asset using a mortgage, what is the security of the loan?**
 - A. Cash**
 - B. Equipment**
 - C. Real Estate**
 - D. Livestock**
- 2. Commodity corn production is an example of which farming type?**
 - A. Low-volume, high value production**
 - B. High-volume, low margin production**
 - C. Custom farming**
 - D. Part-time production**
- 3. If Joe and Mary's farm has a current ratio of 1.5 and liabilities of \$200,000, what is the value of their current assets?**
 - A. \$75,000**
 - B. \$50,000**
 - C. \$100,000**
 - D. Not enough information**
- 4. What does "comparative advantage" in agriculture refer to?**
 - A. The ability of a farm to minimize its costs**
 - B. The capability to produce goods at higher volume than competitors**
 - C. The ability of a farm to produce a good at a lower opportunity cost than competitors**
 - D. The advantage of using technological innovations in farming**
- 5. What is an example of a fixed cost in an agricultural business?**
 - A. Water usage during production**
 - B. Labor costs that vary by month**
 - C. Property taxes on farmland**
 - D. Fertilizer costs based on yield**

- 6. What is a balance sheet in agribusiness?**
- A. A financial statement that summarizes a farm's assets, liabilities, and owner's equity at a specific point in time**
 - B. A document detailing ongoing farm operations and expenses**
 - C. A summary of the farm's crop yields and harvest outcomes**
 - D. A report on market trends affecting agricultural products**
- 7. In accrual accounting, what is a "left side" entry known as?**
- A. Debit**
 - B. Credit**
 - C. Asset**
 - D. Liability**
- 8. What is the primary advantage of forming a Limited Liability Company (LLC) for an agribusiness?**
- A. Greater access to credit**
 - B. Personal liability protection**
 - C. Lower tax rates**
 - D. None of the above**
- 9. What economic principle can help farmers determine the best crop to plant each season?**
- A. Comparative advantage**
 - B. General equilibrium**
 - C. Marginal cost theory**
 - D. Supply and demand**
- 10. What is the first step in the decision-making problem?**
- A. Identify solutions**
 - B. Identify and define the problem or scenario**
 - C. Collect data**
 - D. Make coffee**

Answers

1. C
2. B
3. A
4. C
5. C
6. A
7. A
8. B
9. D
10. B

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Explanations

1. If a loan is secured to an asset using a mortgage, what is the security of the loan?

- A. Cash**
- B. Equipment**
- C. Real Estate**
- D. Livestock**

When a loan is secured using a mortgage, the primary security for that loan is typically real estate. A mortgage is a legal agreement where a borrower pledges their property as collateral to ensure repayment of the loan. If the borrower fails to make the required payments, the lender has the right to take possession of the property through foreclosure. In this context, the other options do not correctly represent the nature of a mortgage. Cash is a liquid asset and cannot be secured in the same way as real estate. Equipment and livestock can be secured with different forms of collateral, such as liens or titles, but they do not fall under the definition of a mortgage, which specifically pertains to real estate. Therefore, the correct understanding of a mortgage leads to the conclusion that the security of the loan is indeed aligned with real estate.

2. Commodity corn production is an example of which farming type?

- A. Low-volume, high value production**
- B. High-volume, low margin production**
- C. Custom farming**
- D. Part-time production**

Commodity corn production is an example of high-volume, low-margin production because it typically involves growing large quantities of corn, which is a staple crop widely available in the market. This type of farming focuses on producing large amounts at lower costs per unit, with the intention of selling the corn at competitive prices prevalent in the commodity markets. In this scenario, farmers often operate on thin margins due to the high level of competition and pricing pressures associated with commodity crops. They rely on consistent yields and efficient practices to maximize overall production volume, as small fluctuations in market prices can significantly impact profitability. This approach contrasts with other farming types that may focus on lower volume but target higher-value products, which can command premium prices due to their specialty nature or unique characteristics.

3. If Joe and Mary's farm has a current ratio of 1.5 and liabilities of \$200,000, what is the value of their current assets?

A. \$75,000

B. \$50,000

C. \$100,000

D. Not enough information

To determine the value of Joe and Mary's current assets, we start with their current ratio, which is defined as the ratio of current assets to current liabilities. In this case, the current ratio is given as 1.5, and we know their total liabilities amount to \$200,000. The current ratio formula can be expressed as: $\text{Current Ratio} = \text{Current Assets} / \text{Current Liabilities}$. We can rearrange this formula to solve for current assets: $\text{Current Assets} = \text{Current Ratio} \times \text{Current Liabilities}$. Substituting the known values into this formula: $\text{Current Assets} = 1.5 \times \$200,000$. Calculating this gives: $\text{Current Assets} = \$300,000$. The correct answer and reasoning must be clarified as the one suggested does not correctly calculate current assets. In reality, the value of their current assets is \$300,000 given the current ratio and total liabilities. This indicates that the understanding of current ratios and how to manipulate the formula is critical in agribusiness management, as it provides insight into the liquidity and overall financial health of the farm. It is important to ensure accurate calculations when dealing with financial metrics in the agricultural context.

4. What does "comparative advantage" in agriculture refer to?

A. The ability of a farm to minimize its costs

B. The capability to produce goods at higher volume than competitors

C. The ability of a farm to produce a good at a lower opportunity cost than competitors

D. The advantage of using technological innovations in farming

Comparative advantage in agriculture refers to the ability of a farm to produce a good at a lower opportunity cost than its competitors. This concept highlights how different farms can specialize in producing certain goods more efficiently relative to others, allowing them to trade and benefit mutually. By focusing on the production of goods for which they have a comparative advantage, farms can increase overall efficiency and productivity in the agricultural sector. For example, if one farm can produce corn with a lower opportunity cost compared to another farm, it can specialize in corn production while the other farm focuses on a different crop where it holds its own comparative advantage. This division of labor leads to more efficient resource allocation, allowing both farms to benefit from trade. The focus on opportunity cost is crucial; it emphasizes that it's not just about minimizing costs or maximizing volume but rather about the relative trade-offs involved in production choices. This principle can lead to more effective strategies in agribusiness, enabling farmers to collaborate and trade goods, enhancing the economic viability of their operations.

5. What is an example of a fixed cost in an agricultural business?

- A. Water usage during production**
- B. Labor costs that vary by month**
- C. Property taxes on farmland**
- D. Fertilizer costs based on yield**

In an agricultural business, fixed costs are those expenses that do not change regardless of the level of production or output. Property taxes on farmland clearly exemplify a fixed cost, as they are incurred regularly and are based on the value of the property rather than on any specific business activity or agricultural production level. This means that regardless of how much the farm produces in a given year, the property taxes remain constant and will still need to be paid. In contrast, water usage during production, labor costs that vary by month, and fertilizer costs based on yield are all variable costs. Water usage can fluctuate depending on irrigation needs or crop growth, labor costs may rise or fall based on the number of workers required during peak seasons, and fertilizer costs often depend on the quantity needed which can change based on the anticipated yield of the crops. These expenses fluctuate with the farm's level of activity and production, distinguishing them from fixed costs.

6. What is a balance sheet in agribusiness?

- A. A financial statement that summarizes a farm's assets, liabilities, and owner's equity at a specific point in time**
- B. A document detailing ongoing farm operations and expenses**
- C. A summary of the farm's crop yields and harvest outcomes**
- D. A report on market trends affecting agricultural products**

A balance sheet in agribusiness is a crucial financial statement that provides a snapshot of a farm's financial position at a specific point in time. It details the farm's assets, which are everything the farm owns that has value, such as land, equipment, and livestock. It also includes liabilities, which are the debts and obligations the farm owes to others, such as loans and accounts payable. The difference between total assets and total liabilities gives a clear picture of the owner's equity, representing the net worth of the farm. Understanding this financial statement is essential for farmers and agribusiness managers as it helps them evaluate the financial health of their operation, make informed decisions about investments, and assess their ability to meet future obligations. By regularly analyzing the balance sheet, they can identify trends over time, manage risks effectively, and plan for the financial future of the farm. The other options do not accurately describe what a balance sheet is. The document addressing ongoing farm operations and expenses pertains more to cash flow statements or income statements, while summaries of crop yields and market trends, while important for overall agricultural management, are not encompassed within the definition of a balance sheet.

7. In accrual accounting, what is a "left side" entry known as?

- A. Debit**
- B. Credit**
- C. Asset**
- D. Liability**

In accrual accounting, a "left side" entry is known as a debit. This terminology is fundamental to the double-entry accounting system, where every transaction is recorded in at least two accounts, and each account has two sides: debits and credits. When an entry is made on the left side (debit), it typically indicates an increase in assets or expenses, or a decrease in liabilities or equity. For instance, if a business purchases machinery, the asset account for machinery would be debited, reflecting an increase in the assets of the company. It's important to note how this distinguishes itself from other options. For example, credits are recorded on the right side of the accounting ledger and are used to decrease assets or expenses or increase liabilities or equity. Assets and liabilities are types of accounts, while debit and credit describe the action taken on the accounts. Understanding these basic principles of accounting is essential for accurately maintaining financial records.

8. What is the primary advantage of forming a Limited Liability Company (LLC) for an agribusiness?

- A. Greater access to credit**
- B. Personal liability protection**
- C. Lower tax rates**
- D. None of the above**

Forming a Limited Liability Company (LLC) primarily provides personal liability protection for its owners, also known as members. This means that the personal assets of the members are generally protected from business debts and liabilities. If the agribusiness were to face lawsuits or incur debts, the members' personal finances, such as houses and savings, would not typically be at risk, safeguarding their personal wealth. This legal structure encourages entrepreneurs to start and invest in agribusinesses without the fear of losing their personal assets due to business-related issues. It also enhances the credibility of the business, as it shows a formal commitment to the business operations, which can instill greater confidence among investors and partners. While access to credit and tax considerations can be important in an agribusiness context, they are secondary to the essential protection an LLC provides against personal liability. This aspect is crucial for managing risk in the often uncertain agricultural environment, where external factors can significantly impact financial health.

9. What economic principle can help farmers determine the best crop to plant each season?

- A. Comparative advantage**
- B. General equilibrium**
- C. Marginal cost theory**
- D. Supply and demand**

The principle of supply and demand is crucial for farmers when selecting the most profitable crop to plant each season. Understanding this principle allows farmers to assess market conditions, including what crops are in high demand and the prices they can expect based on current supply levels. When a particular crop has a strong demand in the market, and the supply is lower than that demand, it can lead to higher prices, thereby making it more lucrative for farmers to plant that crop. Farmers can analyze market trends, consumer preferences, and seasonal fluctuations to make informed decisions about crop selection. For example, if there is a surge in demand for organic vegetables or specialty grains, farmers who capitalize on this trend can potentially achieve greater profits than those planting crops with lower demand or oversupply. Additional economic concepts are relevant but serve different purposes. Comparative advantage focuses on the relative efficiency of producing certain crops versus others, which can guide long-term decisions but may not capture current market dynamics as effectively. General equilibrium involves the interdependence of economic agents in an entire economy, making it more complex for individual farmers to apply. Marginal cost theory addresses cost management and production decisions but does not directly factor in external market demand influences as supply and demand does. Thus, a solid grasp of supply and

10. What is the first step in the decision-making problem?

- A. Identify solutions**
- B. Identify and define the problem or scenario**
- C. Collect data**
- D. Make coffee**

The first step in the decision-making problem is to identify and define the problem or scenario. This step is crucial because no effective decision can be made unless the underlying issue is clearly understood. When you identify and define the problem, you set the groundwork for the entire decision-making process. This involves recognizing the specific situation that needs attention, clarifying the objectives, and understanding the context and constraints surrounding the problem. By accurately defining the problem, it becomes easier to gather relevant data, explore potential solutions, and evaluate the implications of different choices. Without this initial clarity, subsequent steps like collecting data or identifying solutions may not address the root of the issue, leading to ineffective or misguided decisions.

Next Steps

Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.

As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.

If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at hello@examzify.com.

Or visit your dedicated course page for more study tools and resources:

<https://farmagribusinessmgmtcde.examzify.com>

We wish you the very best on your exam journey. You've got this!