

# Farm Business Management Practice Exam (Sample)

## Study Guide



**Everything you need from our exam experts!**

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# Table of Contents

**Copyright** ..... 1

**Table of Contents** ..... 2

**Introduction** ..... 3

**How to Use This Guide** ..... 4

**Questions** ..... 5

**Answers** ..... 8

**Explanations** ..... 10

**Next Steps** ..... 16

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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. 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.**

## **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. 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!**

## Questions

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- 1. The income adjustment for crops held indicates that by the end of 2009, compared to the beginning of 2009, the change could be which of the following?**
  - A. Only higher**
  - B. Only lower**
  - C. No change**
  - D. Either higher or lower or both**
  
- 2. Which business organization would continue to exist as a separate legal entity even if key people die or sell out?**
  - A. Corporation**
  - B. Partnership**
  - C. Limited Liability Company**
  - D. Sole Proprietorship**
  
- 3. Which of the following is most likely to be known at the time an option is purchased?**
  - A. its strike price**
  - B. its premium**
  - C. its expiration date**
  - D. its strike price, the premium, and its expiration date**
  
- 4. Which form of business can have an unlimited number of stockholders?**
  - A. C Corporation**
  - B. Cooperative**
  - C. Sole Proprietorship**
  - D. General Partnership**
  
- 5. Which ratio measures profitability relative to owners' equity?**
  - A. ROE (Return on Equity)**
  - B. Debt-to-Asset**
  - C. Current Ratio**
  - D. Asset Turnover**

- 6. Who pays the income tax in a Limited Liability Company?**
- A. The LLC pays corporate tax**
  - B. Each member pays individually on personal tax return**
  - C. The state pays taxes**
  - D. Tax is deferred**
- 7. What term describes a form of property ownership in which the holders of legal title manage property for the benefit of others?**
- A. Estate**
  - B. Trust**
  - C. Joint Tenancy**
  - D. Custodianship**
- 8. What term is used for the owners of a Limited Liability Company?**
- A. Shareholders**
  - B. Partners**
  - C. Members**
  - D. Beneficiaries**
- 9. The debt-to-equity ratio using market values (0.57) indicates which of the following about the relation of debt to equity?**
- A. Debt exceeds equity**
  - B. Debt equals equity**
  - C. Debt is less than equity**
  - D. Debt is twice equity**
- 10. A hedger who expects to sell a commodity in the future would typically take what futures position to lock in a selling price?**
- A. Sell futures contracts**
  - B. Buy futures contracts**
  - C. Enter into a put option**
  - D. Enter into a call option**

## Answers

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

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## **Explanations**

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**1. The income adjustment for crops held indicates that by the end of 2009, compared to the beginning of 2009, the change could be which of the following?**

**A. Only higher**

**B. Only lower**

**C. No change**

**D. Either higher or lower or both**

The key idea is that the income adjustment for crops held depends on how the year-end value of stored crops changes from the start to the end of the year. That change is not fixed in one direction because prices move up and down and storage conditions or spoilage can affect value as the year progresses. If market prices rise, the value of crops held goes up, creating a higher income adjustment. If prices fall, the value goes down, creating a lower adjustment. And if you hold multiple crops or variations within crops, different items can move in opposite directions—some increases and some decreases—so the total adjustment could end up higher, lower, or a mix of both. That explains why the best answer is that the change could be higher, lower, or both.

**2. Which business organization would continue to exist as a separate legal entity even if key people die or sell out?**

**A. Corporation**

**B. Partnership**

**C. Limited Liability Company**

**D. Sole Proprietorship**

Corporations are created as a separate legal entity that can continue to operate independent of the people who own or run it. Because the entity itself persists beyond the life or involvement of its founders, managers, or shareholders, ownership can change hands through stock transfers without dissolving the business. This enduring, perpetual existence is a defining feature of the corporate form and is why corporations are often chosen for long-term planning, capital raising, and smooth succession. By contrast, a sole proprietorship ends when the owner dies, since there is no separate entity to continue the business. A partnership typically dissolves when a partner dies or withdraws unless a governing agreement provides for continuation. An LLC can have lasting continuity, but it depends on the operating agreement and state rules; the canonical perpetual existence described here points to a corporation.

**3. Which of the following is most likely to be known at the time an option is purchased?**

**A. its strike price**

**B. its premium**

**C. its expiration date**

**D. its strike price, the premium, and its expiration date**

When you buy an option, you enter a contract with fixed terms that are set at the moment of purchase. Those terms include the strike price, the premium you pay, and the expiration date. The strike price is the price at which you can exercise the option, the premium is the price you pay to obtain the option, and the expiration date is the last day you can exercise it. All three are defined in the contract and do not change after you buy. Because the contract specifies these three elements, knowing all of them at purchase is essential. Focusing on just one of them (the strike price alone, or the premium alone, or the expiration date alone) doesn't capture what you've agreed to in the option. The underlying price of the asset at purchase can be observed, but it isn't a fixed term of the option contract. That's why the most complete and informative knowledge at purchase is the combination of strike price, premium, and expiration date.

**4. Which form of business can have an unlimited number of stockholders?**

**A. C Corporation**

**B. Cooperative**

**C. Sole Proprietorship**

**D. General Partnership**

Ownership in a corporation comes from holding shares, so the form that allows investors to own the business through stock is the one where the number of stockholders can be unlimited. A C corporation is set up as a separate legal entity that can issue stock to as many investors as there are willing to participate, without a built-in cap on shareholders. This makes it well-suited for raising capital from a broad base of investors and for growth. In contrast, a sole proprietorship is owned by a single person, so there is only one owner. A general partnership has two or more partners but doesn't issue stock to public investors. A cooperative is owned by its members who use its services, and while it can have many members, it does not operate with stockholders in the corporate sense.

**5. Which ratio measures profitability relative to owners' equity?**

- A. ROE (Return on Equity)**
- B. Debt-to-Asset**
- C. Current Ratio**
- D. Asset Turnover**

Profitability relative to owners' equity is captured by Return on Equity. It shows how much profit the business generates for each dollar of the owners' investment, reflecting how effectively management is using equity to earn earnings. The typical calculation uses net income after tax divided by average owners' equity over the period, so a higher ROE means higher profitability per unit of equity. Keep in mind that leverage can push ROE higher if debt boosts profits, but this also adds risk. The other ratios don't measure profits per unit of equity: Debt-to-Asset looks at how much financing comes from debt, the Current Ratio focuses on short-term liquidity, and Asset Turnover assesses how efficiently assets generate sales rather than profits relative to equity.

**6. Who pays the income tax in a Limited Liability Company?**

- A. The LLC pays corporate tax**
- B. Each member pays individually on personal tax return**
- C. The state pays taxes**
- D. Tax is deferred**

Tax treatment of an LLC is typically pass-through, so profits flow to members and are taxed on their personal returns. Because of this, the members report their share of the LLC's income on their own tax forms and pay tax at their individual rates, rather than the LLC paying income tax itself. An LLC can choose to be taxed as a corporation, in which case the entity would owe corporate tax and distributions to members could be taxed again, but that is a specific election. The state does not pay the LLC's income tax, and tax is not automatically deferred; there may be state fees or minimum taxes in some places, but these are separate from income tax.

**7. What term describes a form of property ownership in which the holders of legal title manage property for the benefit of others?**

**A. Estate**

**B. Trust**

**C. Joint Tenancy**

**D. Custodianship**

A trust describes a setup where the legal title to property is held by trustees who manage it for the benefit of others, the beneficiaries. The core idea is the separation between who administers the asset and who benefits from it. Trustees have a fiduciary duty to manage the property prudently and in line with the trust terms, while the people named to benefit—often family members or heirs—enjoy the benefits or distributions from the trust. This structure is commonly used to control and protect farm assets across generations, ensure smooth transfer, or manage property if beneficiaries aren't able to handle it themselves. Why this fits best: it explicitly describes management of property by those with legal title on behalf of others, which is the defining feature of a trust. The other options don't capture that arrangement. An estate refers to all assets owned by a person primarily around transfer after death; joint tenancy is a form of co-ownership with survivorship rights rather than a trustee-driven arrangement for beneficiaries; custodianship describes someone holding assets on behalf of another in a more limited, caretaker role rather than a formal fiduciary structure for multiple beneficiaries.

**8. What term is used for the owners of a Limited Liability Company?**

**A. Shareholders**

**B. Partners**

**C. Members**

**D. Beneficiaries**

Owners of an LLC are called members. This name reflects that ownership comes as membership interests rather than shares of stock. In contrast, shareholders own a corporation, partners belong to a partnership, and beneficiaries are those who receive assets from trusts or estates. An LLC can be member-managed (members run the company) or manager-managed (managers run it), but the people who own the LLC are always called members.

**9. The debt-to-equity ratio using market values (0.57) indicates which of the following about the relation of debt to equity?**

- A. Debt exceeds equity**
- B. Debt equals equity**
- C. Debt is less than equity**
- D. Debt is twice equity**

The debt-to-equity ratio shows how much debt a firm uses relative to its equity financing. A market-value ratio of 0.57 means debt is 57% of the market value of equity, so debt is smaller than equity. In practical terms, for every unit of equity there is 0.57 unit of debt, indicating the firm is less leveraged. This rules out debt being greater than or equal to equity or debt being twice equity, since those scenarios would require a ratio of 1 or 2 (or higher).

**10. A hedger who expects to sell a commodity in the future would typically take what futures position to lock in a selling price?**

- A. Sell futures contracts**
- B. Buy futures contracts**
- C. Enter into a put option**
- D. Enter into a call option**

Hedging price risk with futures when you expect to sell later is done by taking a short position in futures. By selling futures contracts now, you lock in a price at which you expect to dispose of your commodity in the future. The futures market moves in the opposite direction of the cash price, so if cash prices fall, the gain on the short futures offsets the lower revenue from selling the commodity. If prices rise, you incur a loss on the futures, but you still benefit from a higher cash selling price, leaving you close to the intended locked-in price. This setup provides the price protection a producer aims for when planning a future sale. Other options, like put options, could provide a floor with a premium, while buying futures or using calls wouldn't directly lock in a selling price for a future sale as effectively.

## 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](mailto:hello@examzify.com).**

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

**<https://farmbusinessmgmt.examzify.com>**

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

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