# Case Study #4: Enterprise Change - The North Farm

## Alternate Scenarios

This fictional Case Study featuring Will and Jane North was prepared as part of a series to illustrate the process involved, and benefits of completing a financial review to analyze options that might be available for a farm operation.  Every Situation has several possible solutions.  The original Case Study Mixed Farm Operation illustrates an action plan based on one scenario.  The following are action plans for alternative scenarios for this farm family to consider:

Scenario 2 **– sell excess equipment, purchase equipment and cattle**

Scenario 3 **– if calf prices decreased**

Scenario 4 **– if expenses increased**

Scenario 5 **– if crop prices increased**

**Note: This Case Study and the alternate scenarios are not a recommendation for a particular course of action.  Individual results for farm operators considering all their own option will vary, with their own financial information and family and business goals.**

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# Scenario 2: The Action Plan –

In this scenario, the projections consider how the financial results would change if the net capital cost for the transition from cash crops to beef was to increase:

- a decreased net return in the equipment being sold of 10%
- an increase cost of equipment and cattle being purchased of 10%

All other costs, and returns, and assumed levels of production and prices are kept the same as in the original scenario.

**Operations were projected for 2 years based on these changes. The results follow:**

## *After Change Projection (Year 1)*

| Income (Jan 1 - Dec 31, 2016) | | | | | | Expenses (Jan 1 - Dec 31, 2016) | |
|---|---|---|---|---|---|---|---|
| **Income** | | | | | | **Expense** | |
| Livestock sales | | | | | | Livestock purch. & expense | 457,500 |
| calves | 0 | x | 0 | 0 | | Cropping expense | 226,245 |
| cull cows | 0 | x | 0 | 0 | | Overhead expense | 10,500 |
| repl. hfrs | 0 | x | 0 | 0 | | Operating interest | 1,398 |
| bulls | 0 | | 0 | 0 | | Term interest | 23,433 |
| Total | | | | 0 | | **Total Cash Expense** | 719,076 |
| Crop sales | | | | | | **Non Cash Expense** | |
| canola | 14000 | x | 10.00 | 140,000 | | Depreciation | 40,800 |
| barley | 25000 | x | 4.10 | 102,500 | | Exp. side acc. adj. | (48,109) |
| oats | 22000 | x | 2.50 | 55,000 | | **Total Non Cash Expense** | (7,309) |
| Total | | | | 297,500 | | | |
| Other income | | | | | | **Total Accrued Expense** | 711,767 |
| Gov't programs | | | | 5,000 | | **Net Accrued Farm Income** | 2,573 |
| Custom work | | | | 8,000 | | Net wages | 30,000 |
| Other | | | | 6,800 | | Living costs | 48,000 |
| Total | | | | 19,800 | | Income tax | 0 |
| **Total Cash Income** | | | | 317,300 | | **Debt Service Capacity** | 48,806 |
| **Inc. side accrual adjustments** | | | | 397,040 | | (Net acc. farm inc. + depreciation + term interest + non farm income | |
| **Total Accrued Income** | | | | 714,340 | | - living costs - income tax) | |

| **Profitability Ratios:** | |
|---|---|
| Debt Service Ratio: | 0.53 |
| Return on Assets: | -0.26% |
| Return on Equity: | -2.93% |
| Max. operating loan required: | 100,965 |

| **Payments** | |
|---|---|
| Principal | 68,953 |
| Interest | 23,433 |
| Total | 92,386 |

| **Closing Financial Ratios:** | |
|---|---|
| Current Ratio | 0.60 |
| Debt to Equity Ratio | 0.76 |
| Equity Ratio | 0.57 |

# *After Change Projection (Year 2)*

## Income (Jan 1 - Dec 31, 2017)

| | | | | |
|---|---|---|---|---|
| **Income** | | | | |
| Livestock sales | | | | |
| calves | 144 | x | 1,500 | 216,000 |
| cull cows | 26 | x | 1,400 | 36,400 |
| repl. hfrs | 12 | x | 2,000 | 24,000 |
| bulls | 4 | | 2,500 | 10,000 |
| Total | | | | 286,400 |
| Crop sales | | | | |
| canola | 5200 | x | 10.00 | 52,000 |
| barley | 17400 | x | 4.10 | 71,340 |
| Total | | | | 123,340 |
| Other income | | | | |
| Gov't programs | | | | 5,000 |
| Custom work | | | | 8,000 |
| Other | | | | 6,800 |
| Total | | | | 19,800 |
| **Total Cash Income** | | | | 429,540 |
| **Inc. side accrual adjustments** | | | | (96,940) |
| **Total Accrued Income** | | | | 332,600 |

## Expense (Jan 1 - Dec 31, 2017)

| | |
|---|---|
| **Expense** | |
| Livestock expense | 78,280 |
| Cropping expense | 65,950 |
| Overhead expense | 10,500 |
| Operating interest | 5,496 |
| Term interest | 36,970 |
| **Total Cash Expense** | 197,196 |
| **Non Cash Expense** | |
| Depreciation | 43,396 |
| Exp. side acc. adj. | (1,529) |
| **Total Non Cash Expense** | 41,867 |
| **Total Accrued Expense** | 239,063 |
| **Net Accrued Farm Income** | 93,537 |
| Net wages | 30,000 |
| Living costs | 48,000 |
| Income tax | 20,000 |
| **Debt Service Capacity** | 135,904 |

(Net acc. farm inc. + depreciation + term interest + non farm income - living costs - income tax)

| **Profitability Ratios:** | |
|---|---|
| Debt Service Ratio: | 1.25 |
| Return on Assets: | 3.46% |
| Return on Equity: | 2.81% |
| Max. operating loan required: | 88,040 |

| **Payments** | |
|---|---|
| Principal | 71,708 |
| Interest | 36,970 |
| Total | 108,679 |

| **Closing Financial Ratios:** | |
|---|---|
| Current Ratio | 0.73 |
| Debt to Equity Ratio | 0.53 |
| Equity Ratio | 0.65 |

Some comments about these results are as follows:

1. In this scenario, the operation is unchanged from a production standpoint, so projected cash revenue is the same as in the original case. Net accrued income is similar as well, even though cash expenses are higher due to the increased cost of livestock.
2. Because the assets being sold are being projected to bring less, and those being purchased are projected to cost more in this scenario, the new long term loan projected in this case is $50,000 higher than in the original scenario. As that will not fully cover the additional capital requirement, this scenario sees cash on hand at the end of Year 2 being about $30,000 less than in the original scenario as well, but it is projected the operating loan requirement will still remain within the limits approved.
3. With the higher loan requirement of this scenario, debt service capacity is slightly reduced, and payment requirement slightly increased. As a result, the Debt Service Ratio in this scenario is weaker than in the original case, but is still considered to be marginally acceptable.

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**| Scenario 2 | Scenario 3 | Scenario 4 | Scenario 5 |**

## Scenario 3: The Action Plan –

In this scenario, the projections show how the financial results would change if the price for calves sold was to decrease:

- The change of operation to beef cow/calf taking place as per the original scenario
- First calf price level – the projected sale price for fall calves dropping by 10% from $1,500 per head to $1,350 per head
- Second calf price level – the projected sale price for fall calves dropping by 10% from $1,500 per head to $1,200 per head

All other revenues, and expense are projected to remain the same as in the original scenario. Projected tax payment will be impacted in each case however, because of the resulting drop in net income. The change is made to Year 2 only, as no calves are produced in Year 1. Instead of 2 years projections at each price level, then, only Year 2 is being reviewed.

**Operations were projected for 1 year for each price level.  The results follow:**

## *After Change Projection (Year 2)*

### (assuming 10% drop in calf prices)

| Income (Jan 1 - Dec 31, 2017) | | | | | | Expense (Jan 1 - Dec 31, 2017) | |
|---|---|---|---|---|---|---|---|
| **Income** | | | | | | **Expense** | |
| Livestock sales | | | | | | Livestock expense | 74,280 |
| calves | 144 | x | 1,350 | 194,400 | | Cropping expense | 65,950 |
| cull cows | 26 | x | 1,400 | 36,400 | | Overhead expense | 10,500 |
| repl. hfrs | 12 | x | 2,000 | 24,000 | | Operating interest | 5,297 |
| bulls | 4 | | 2,500 | 10,000 | | Term interest | 34,828 |
| Total | | | | 264,800 | | **Total Cash Expense** | 190,856 |
| Crop sales | | | | | | **Non Cash Expense** | |
| canola | 5200 | x | 10.00 | 52,000 | | Depreciation | 42,896 |
| barley | 17400 | x | 4.10 | 71,340 | | Exp. side acc. adj. | (1,508) |
| Total | | | | 123,340 | | **Total Non Cash Expense** | 41,388 |
| Other income | | | | | | **Total Accrued Expense** | 232,244 |
| Gov't programs | | | | 5,000 | | **Net Accrued Farm Income** | 76,356 |
| Custom work | | | | 8,000 | | Net wages | 30,000 |
| Other | | | | 6,800 | | Living costs | 48,000 |
| Total | | | | 19,800 | | Income tax | 15,000 |
| **Total Cash Income** | | | | 407,940 | | **Debt Service Capacity** | 121,081 |
| **Inc. side accrual adjustments** | | | | (99,340) | | (Net acc. farm inc. + depreciation + term interest + non farm income - living costs - income tax) | |
| **Total Accrued Income** | | | | 308,600 | | | |

| **Profitability Ratios:** | |
|---|---|
| Debt Service Ratio: | 1.16 |
| Return on Assets: | 2.74% |
| Return on Equity: | 1.76% |
| Max. operating loan required: | 80,451 |

| **Payments** | |
|---|---|
| Principal | 69,355 |
| Interest | 34,828 |
| Total | 104,183 |

| **Closing Financial Ratios:** | |
|---|---|
| Current Ratio | 0.94 |
| Debt to Equity Ratio | 0.50 |
| Equity Ratio | 0.67 |

## ***After Change Projection (Year 2)***

**(assuming 20% drop in calf prices)**

**Income (Jan 1 - Dec 31, 2017)**

| | | | | |
|---|---|---|---|---|
| **Income** | | | | |
| Livestock sales | | | | |
| calves | 144 | x | 1,200 | 172,800 |
| cull cows | 26 | x | 1,400 | 36,400 |
| repl. hfrs | 12 | x | 2,000 | 24,000 |
| bulls | 4 | | 2,500 | 10,000 |
| Total | | | | 243,200 |
| Crop sales | | | | |
| canola | 5200 | x | 10.00 | 52,000 |
| barley | 17400 | x | 4.10 | 71,340 |
| Total | | | | 123,340 |
| Other income | | | | |
| Gov't programs | | | | 5,000 |
| Custom work | | | | 8,000 |
| Other | | | | 6,800 |
| Total | | | | 19,800 |
| **Total Cash Income** | | | | 386,340 |
| **Inc. side accrual adjustments** | | | | (99,340) |
| **Total Accrued Income** | | | | 287,000 |

**Expense (Jan 1 - Dec 31, 2017)**

| | |
|---|---|
| **Expense** | |
| Livestock expense | 74,280 |
| Cropping expense | 65,950 |
| Overhead expense | 10,500 |
| Operating interest | 5,239 |
| Term interest | 34,828 |
| **Total Cash Expense** | 190,797 |
| **Non Cash Expense** | |
| Depreciation | 42,896 |
| Exp. side acc. adj. | (1,508) |
| **Total Non Cash Expense** | 41,388 |
| **Total Accrued Expense** | 232,185 |
| **Net Accrued Farm Income** | 54,815 |
| Net wages | 30,000 |
| Living costs | 48,000 |
| Income tax | 11,000 |
| **Debt Service Capacity** | 103,539 |

(Net acc. farm inc. + depreciation + term interest + non farm income - living costs - income tax)

| **Profitability Ratios:** | |
|---|---|
| Debt Service Ratio: | 0.99 |
| Return on Assets: | 1.85% |
| Return on Equity: | 0.42% |
| Max. operating loan required: | 80,451 |

| **Payments** | |
|---|---|
| Principal | 69,355 |
| Interest | 34,828 |
| Total | 104,183 |

| **Closing Financial Ratios:** | |
|---|---|
| Current Ratio | 0.73 |
| Debt to Equity Ratio | 0.51 |
| Equity Ratio | 0.66 |

Some comments about these results are as follows:

1. In this scenario, the only thing that changes is the price of the calves being sold. All other revenues and expenses remain the same as in the original case.
2. In the original scenario, the Debt Service Ratio was projected to be 1.32, which is normally considered to be adequate. At the 10% price drop ($1,500 per calf sold to $1,350 per calf sold), that ratio drops to 1.16, which is very marginal, and at the 20% price drop ($1,500 per calf sold to $1,200 per calf sold), it further decreases to .99, which is normally considered to be not acceptable.
3. In each of the options, the Norths would have the cash flow to make their payments as due in the years projected, but with the decreased revenue, profitability and debt service capacity, over time cash reserves would be depleted, and operating loan increased if obligations are to be paid as due. Should low prices persist into the longer term, they may have to make further changes to their operation to survive.

This scenario illustrates the need to test the sensitivity of the projections to changes in possible revenues and expenses. If it is believed that a product price that would result in inadequate income and debt serviceability is reasonably probable, other options may need to be considered.

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| Scenario 2 | Scenario 3 | Scenario 4 | Scenario 5 |

## Scenario 4: The Action Plan –

In this scenario, how the financial results would change if key operating expenses were to increase:

- The change of operation to beef cow/calf taking place as per the original scenario
- First input cost level – livestock and crop variable costs, including land rent, increasing by 10%
- Second input cost level - livestock and crop variable costs, including land rent, increasing by 20%

All other revenues, and expense are projected to remain the same as in the original scenario. Projected tax payment will be impacted in each case however, because of the resulting drop in net income. The change is made to Year 2 of the projections only.

**Operations were projected for 1 year for each cost level. The results follow:**

## *After Change Projection (Year 2)*

### (assuming 10% increase in variable expenses)

**Income (Jan 1 - Dec 31, 2017)**

| | | | | |
|---|---|---|---|---|
| **Income** | | | | |
| Livestock sales | | | | |
| calves | 144 | x | 1,500 | 216,000 |
| cull cows | 26 | x | 1,400 | 36,400 |
| repl. hfrs | 12 | x | 2,000 | 24,000 |
| bulls | 4 | | 2,500 | 10,000 |
| Total | | | | 286,400 |
| Crop sales | | | | |
| canola | 5200 | x | 10.00 | 52,000 |
| barley | 17400 | x | 4.10 | 71,340 |
| Total | | | | 123,340 |
| Other income | | | | |
| Gov't programs | | | | 5,000 |
| Custom work | | | | 8,000 |
| Other | | | | 6,800 |
| Total | | | | 19,800 |
| **Total Cash Income** | | | | 429,540 |
| **Inc. side accrual adjustments** | | | | -99,340 |
| **Total Accrued Income** | | | | 330,200 |

**Expense (Jan 1 - Dec 31, 2017)**

| | |
|---|---|
| **Expense** | |
| Livestock expense | 77,708 |
| Cropping expense | 72,545 |
| Overhead expense | 10,500 |
| Operating interest | 5,394 |
| Term interest | 34,828 |
| **Total Cash Expense** | 200,976 |
| **Non Cash Expense** | |
| Depreciation | 42,896 |
| Exp. side acc. adj. | -1,508 |
| **Total Non Cash Expense** | 41,388 |
| **Total Accrued Expense** | 242,364 |
| **Net Accrued Farm Income** | 87,836 |
| Net wages | 30,000 |
| Living costs | 48,000 |
| Income tax | 17,000 |
| **Debt Service Capacity** | 130,560 |

(Net acc. farm inc. + depreciation
+ term interest + non farm income
- living costs - income tax)

| **Profitability Ratios:** | |
|---|---|
| Debt Service Ratio: | 1.25 |
| Return on Assets: | 3.21% |
| Return on Equity: | 2.46% |
| Max. operating loan required: | 82,663 |

| **Payments** | |
|---|---|
| Principal | 69,355 |
| Interest | 34,828 |
| Total | 104,183 |

| **Closing Financial Ratios:** | |
|---|---|
| Current Ratio | 1.06 |
| Debt to Equity Ratio | 0.50 |
| Equity Ratio | 0.67 |

## ***After Change Projection (Year 2)***

**(assuming 20% increase in variable expenses)**

| **Income (Jan 1 - Dec 31, 2017)** | | | | | **Expense (Jan 1 - Dec 31, 2017)** | |
|---|---|---|---|---|---|---|
| **Income** | | | | | **Expense** | |
| Livestock sales | | | | | Livestock expense | 81,136 |
| calves | 144 | x | 1,500 | 216,000 | Cropping expense | 79,140 |
| cull cows | 26 | x | 1,400 | 36,400 | Overhead expense | 10,500 |
| repl. hfrs | 12 | x | 2,000 | 24,000 | Operating interest | 5,433 |
| bulls | 4 | | 2,500 | 10,000 | Term interest | 34,828 |
| Total | | | | 286,400 | **Total Cash Expense** | 211,037 |
| Crop sales | | | | | **Non Cash Expense** | |
| canola | 5200 | x | 10.00 | 52,000 | Depreciation | 42,896 |
| barley | 17400 | x | 4.10 | 71,340 | Exp. side acc. adj. | -1,508 |
| Total | | | | 123,340 | **Total Non Cash Expense** | 41,388 |
| Other income | | | | | **Total Accrued Expense** | 252,425 |
| Gov't programs | | | | 5,000 | **Net Accrued Farm Income** | 77,775 |
| Custom work | | | | 8,000 | Net wages | 30,000 |
| Other | | | | 6,800 | Living costs | 48,000 |
| Total | | | | 19,800 | Income tax | 15,000 |
| **Total Cash Income** | | | | 429,540 | **Debt Service Capacity** | 122,499 |
| **Inc. side accrual adjustments** | | | | -99,340 | (Net acc. farm inc. + depreciation + term interest + non farm income | |
| **Total Accrued Income** | | | | 330,200 | - living costs - income tax) | |

| **Profitability Ratios:** | |
|---|---|
| Debt Service Ratio: | 1.18 |
| Return on Assets: | 2.80% |
| Return on Equity: | 1.84% |
| Max. operating loan required: | 84,870 |

| **Payments** | |
|---|---|
| Principal | 69,355 |
| Interest | 34,828 |
| Total | 104,183 |

| **Closing Financial Ratios:** | |
|---|---|
| Current Ratio | 0.96 |
| Debt to Equity Ratio | 0.50 |
| Equity Ratio | 0.67 |

Some comments about these results are as follows:

4. the increase in input costs is only done for Year 2 of the projections. It is assumed that the costs for Year 1 are known, but that they will rise to these levels in the following and subsequent years
5. as would be expected, the increase in input costs weakens all of the financial results from the original scenario.
6. in both levels of increased input costs, the results continue to be slightly better than what they are presently experiencing as illustrated in the "before change" projections
7. in both projections, with the increase in input costs, operating loan requirements, at least in the first few years, would increase. As long as calf prices remain strong, however, and Jane continues with her non farm employment, in both cases, cash flow should allow for a slow decrease in operating loan requirements over time
8. In the original scenario, the Debt Service Ratio was projected to be 1.32, which is normally considered to be adequate. At the 10% cost increase that ratio drops to 1.25, which is generally considered to be acceptable, and at the 20% cost increase it further decreases to 1.18, which is marginally acceptable. If there are further challenges to revenue, or expense, or if debt service requirements increase, the Norths could find themselves in a situation where, over time, their income is insufficient to service debt as required.

As with Scenario 3, this scenario illustrates the need to test the sensitivity of the projections to changes in possible revenues and expenses. If it is believed that operating costs that would result in inadequate income and debt serviceability is reasonably probable, other options may need to be considered.

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**| Scenario 2 | Scenario 3 | Scenario 4 | Scenario 5 |**

## Scenario 5: The Action Plan –

In this alternative, the projections look at how the financial results would change if the operation continued on producing grain as at present, and if crop prices were to increase:

- There would be no change of operation as assumed in the "after change" scenario, rather, operations would continue on as at present
- First crop price level – crop prices increase by 5%
- Second crop price level – crop prices increase by 10%

All other revenues, and expense are projected to remain the same as originally projected. Expected tax payment will be impacted in each case however, because of the resulting increase in net income. The change is made to Year 1 of the projections only which reflects the operation as it presently exists, without changes.

**Operations were projected for 1 year for each price level. The results follow:**

## *North Farm Income/Expense Summary*

### (original operation, assume 5% increase in crop prices)

| Income (Jan 1 - Dec 31, 2016) | | | | | Expenses (Jan 1 - Dec 31, 2016) | |
|---|---|---|---|---|---|---|
| **Income** | | | | | **Expense** | |
| Crop sales | | | | | Cropping expense | 224,345 |
| canola | 14000 | x | 10.50 | 147,000 | Overhead expense | 10,500 |
| barley | 25000 | x | 4.30 | 107,500 | Operating interest | 1,121 |
| oats | 35000 | x | 2.63 | 92,050 | Term interest | 23,433 |
| Total | | | | 346,550 | **Total Cash Expense** | 259,399 |
| Other income | | | | | **Non Cash Expense** | |
| gov't programs | | | | 5,000 | Depreciation | 40,800 |
| custom work | | | | 8,000 | Exp. side acc. adj. | -200 |
| leases | | | | 4,800 | **Total Non Cash Expense** | 40,600 |
| other | | | | 2,000 | **Total Accrued Expense** | 299,999 |
| Total | | | | 19,800 | **Net Accrued Farm Income** | 60,026 |
| | | | | | Net wages | 30,000 |
| **Total Cash Income** | | | | 366,350 | Living costs | 48,000 |
| | | | | | Income tax | 12,000 |
| | | | | | **Debt Service Capacity** | 94,259 |
| **Inc. side accrual adjustments** | | | | -6,325 | (Net acc. farm inc. + depreciation + term interest + non farm income | |
| **Total Accrued Income** | | | | 360,025 | - living costs - income tax) | |

| **Profitability Ratios:** | |
|---|---|
| Debt Service Ratio: | 1.27 |
| Return on Assets: | 1.56% |
| Return on Equity: | 0.73% |
| Max. operating loan required: | 77,040 |

| **Payments** | |
|---|---|
| Principal | 50,753 |
| Interest | 23,433 |
| Total | 74,186 |

| **Closing Financial Ratios:** | |
|---|---|
| Current Ratio | 1.35 |
| Debt to Equity Ratio | 0.38 |
| Equity Ratio | 0.73 |

## ***North Farm Income/Expense Summary***

### (original operation, assume 10% increase in crop prices)

| Income (Jan 1 - Dec 31, 2016) | | | | | | Expenses (Jan 1 - Dec 31, 2016) | |
|---|---|---|---|---|---|---|---|
| **Income** | | | | | | **Expense** | |
| Crop sales | | | | | | Cropping expense | 224,345 |
| canola | 14000 | x | 11.00 | 154,000 | | Overhead expense | 10,500 |
| barley | 25000 | x | 4.50 | 112,500 | | Operating interest | 956 |
| oats | 35000 | x | 2.75 | 96,250 | | Term interest | 23,433 |
| Total | | | | 362,750 | | **Total Cash Expense** | 259,234 |
| | | | | | | | |
| Other income | | | | | | **Non Cash Expense** | |
| gov't programs | | | | 5,000 | | Depreciation | 40,800 |
| custom work | | | | 8,000 | | Exp. side acc. adj. | -200 |
| leases | | | | 4,800 | | **Total Non Cash Expense** | 40,600 |
| other | | | | 2,000 | | **Total Accrued Expense** | 299,834 |
| Total | | | | 19,800 | | **Net Accrued Farm Income** | 76,091 |
| | | | | | | Net wages | 30,000 |
| **Total Cash Income** | | | | 382,550 | | Living costs | 48,000 |
| | | | | | | Income tax | 15,000 |
| | | | | | | **Debt Service Capacity** | 107,324 |
| **Inc. side accrual adjustments** | | | | -6,625 | | (Net acc. farm inc. + depreciation + term interest + non farm income - living costs - income tax) | |
| **Total Accrued Income** | | | | 375,925 | | | |

| **Profitability Ratios:** | |
|---|---|
| Debt Service Ratio: | 1.45 |
| Return on Assets: | 2.27% |
| Return on Equity: | 1.70% |
| Max. operating loan required: | 70,300 |

| **Payments** | |
|---|---|
| Principal | 50,753 |
| Interest | 23,433 |
| Total | 74,186 |

| **Closing Financial Ratios:** | |
|---|---|
| Current Ratio | 1.57 |
| Debt to Equity Ratio | 0.37 |
| Equity Ratio | 0.73 |

Some comments about these results are as follows:

9. In the original grain operation, with the crop prices used, the Debt Service Ratio was projected to be 1.17, which was felt to be marginal. At the 5% crop price increase that ratio rises to 1.27, which is generally considered to be acceptable, and at the 10% crop price increase it further rises to 1.45, which is considered to be strong.
10. As with the Debt Service Ratio, all financial indicators improve under these 2 changes.

This scenario illustrates the need to analyze assumptions about an existing operation before making major changes, as with small increase in crop prices, the operation as it presently exists shows reasonable financial strength

**<u>Summary</u>**

Four alternative Scenarios have been developed for this Case Study. Each Scenario has it's own individual results, positive features and negative features. Please refer to the Summary document which displays the Financial Ratios and Indicators for each Scenario, and what are considered to be the Positives and Negatives of each relative to the Case Study presented and Business and Personal Goals of the Case Study Farmers.

**| Scenario 2 | Scenario 3 | Scenario 4 | Scenario 5 |**