

Audio:

Welcome to Getting on Track: Understanding Financial Performance. In this course you will learn how to analyze the health of your business using financial ratios.

Click the next arrow to start at the beginning of the course or click the Menu link to select a lesson from the Main Menu. We recommend that you view the lessons in order the first time through the course.

Lesson 7

Measures of Repayment Capacity



Measures of Repayment Capacity

Repayment Capacity Measures

The Farm Financial Standards Council recommends five ratios for measuring repayment capacity:

- Capital Debt Repayment Capacity
- Term Debt and Capital Lease Coverage Ratio
- Capital Debt Repayment Margin
- Replacement Margin
- Replacement Margin Coverage Ratio



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Repayment capacity refers to the ability of a borrower to repay term farm debt from farm and non-farm income.

The Farm Financial Standards Council recommends five ratios for measuring repayment capacity: Capital Debt Repayment Capacity, Term Debt and Capital Lease Coverage Ratio, Capital Debt Repayment Margin, Replacement Margin, and Replacement Margin Coverage Ratio.

In this lesson, you will learn how to calculate and evaluate the Capital Debt Repayment Capacity and Term Debt and Capital Lease Coverage ratio.

Measures of Repayment Capacity

Capital Debt Repayment Capacity

$$\begin{aligned} & \text{Net Farm Income} \\ & + \text{Depreciation} \\ & + \text{Net Non-farm Income} \\ & - \text{Family Living} \\ & - \text{Income Taxes} \\ & + \text{Interest on Term Loans} \\ \hline & = \text{Capital Debt Repayment Capacity} \end{aligned}$$

These values can be found on the income statement, book value balance sheet, and owner equity tabs.



Audio:

Capital Debt Repayment Capacity is calculated with the formula shown on screen.

These values can be found on the income statement, balance sheet, and family financial records.

The results of this calculation indicate the amount of funds available to cover debt and lease payments or to make alternative investments.

Measures of Repayment Capacity

Term Debt and Capital Lease Coverage

$$\begin{array}{l} \text{Net Farm Income} \\ + \text{Depreciation} \\ + \text{Net Non-farm Income} \\ - \text{Family Living} \\ - \text{Income Taxes} \\ + \text{Interest on Term Loans} \\ \hline \end{array} = \begin{array}{l} \text{Term Debt and Capital} \\ \text{Lease Coverage Ratio} \end{array}$$

Scheduled Payments for
Principal and Interest on Term
Loans and Capital Leases

These values can be found on the income statement, book value balance sheet, and owner equity tabs.



Audio:

The Term Debt and Capital Lease Coverage ratio is calculated with the formula shown on screen.


These values can be found on the income statement, balance sheet, and family financial records.

The Term Debt and Capital Lease Coverage ratio measures the ability of the business to cover debt and lease payments, replace assets, or make alternative investments.


Measures of Repayment Capacity

Calculate the Ratios

Download *Jack and Joanie's financial statements*. Then, calculate the capital debt repayment capacity. Click *Submit* to check your answers.

[Jack and Joanie's financial statements](#) 

Capital Debt Repayment Capacity

Net Farm Income	
+ Depreciation	
+ Net Non-Farm Income	
- Family Living	
- Income Taxes	
+ Interest on Term Loans	
= <input type="text"/>	<input type="button" value="Submit"/>



Audio:


Now, try calculating the ratios. Click on the link to download Jack and Joanie's financial statements. Then, calculate Jack and Joanie's capital debt repayment capacity. Click the calculator icon to access a calculator tool.

Click *Submit* to check your answer.


Measures of Repayment Capacity

Calculate the Ratios

Download Jack and Joanie's financial statements. Then, calculate the capital debt repayment capacity. Click **Submit** to check your answers.

Jack and Joanie's financial statements 

Capital Debt Repayment Capacity	
Net Farm Income	
+ Depreciation	
+ Net Non-Farm Income	
- Family Living	
- Income Taxes	
+ Interest on Term Loans	
=	20136

 Calculator

That's correct! You have correctly calculated Jack and Joanie's capital debt repayment capacity.



Measures of Repayment Capacity

Calculate the Ratio: Cap

Calculating Capital Debt Repayment Capacity

Step 1:
Locate the net farm income value on Jack and Joanie's income statement

INCOME STATEMENT												
Values in blue indicate that are positive in the table. Values in red indicate that are negative in the table.												
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Each Partner:												
Revenue	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000
Expenses	(500)	(470)	(4,500)	(4,400)	(4,400)	(4,400)	(4,400)	(4,400)	(4,400)	(4,400)	(4,400)	(4,400)
Net Farm Income	19,500	19,530	15,500	15,600	15,600	15,600	15,600	15,600	15,600	15,600	15,600	15,600
Cost of Revenue	2,204	2,206	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000
Property & Chemicals	500	500	500	500	500	500	500	500	500	500	500	500
Transportation	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Food Cost	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Marketing	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Utilities	100	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Travel	100	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Other	100	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Change	100	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Travel (M. & Fuel)	100	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Marketing/Program Fee	100	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Food Processing	100	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Utilities & Materials	100	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Water	100	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Insurance	100	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Material - Operating	100	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Maintenance	100	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Total	19,500	19,530	15,500	15,600	15,600	15,600	15,600	15,600	15,600	15,600	15,600	15,600
Net Farm Income (From It)	19,500	19,530	15,500	15,600	15,600	15,600	15,600	15,600	15,600	15,600	15,600	15,600
Adjustments:												
Change in Inventory	0	0	0	0	0	0	0	0	0	0	0	0
Depreciation	(2,400)	(2,400)	(2,400)	(2,400)	(2,400)	(2,400)	(2,400)	(2,400)	(2,400)	(2,400)	(2,400)	(2,400)
Personal Consumption	0	0	0	0	0	0	0	0	0	0	0	0
Change in Capital Assets	0	0	0	0	0	0	0	0	0	0	0	0
Gain	0	0	0	0	0	0	0	0	0	0	0	0
Loss	0	0	0	0	0	0	0	0	0	0	0	0
Equity	0	0	0	0	0	0	0	0	0	0	0	0
Change in Payables	0	0	0	0	0	0	0	0	0	0	0	0
Change in Receivables	0	0	0	0	0	0	0	0	0	0	0	0
Net of Adjustments	(2,400)	(2,400)	(2,400)	(2,400)	(2,400)	(2,400)	(2,400)	(2,400)	(2,400)	(2,400)	(2,400)	(2,400)
Net Farm Income	17,100	17,130	13,100	13,200	13,200	13,200	13,200	13,200	13,200	13,200	13,200	13,200
Each Used for Debt Payments	(800)	0	(8,000)	0	(8,000)	(700)	0	0	(8,000)	0		

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Measures of Repayment Capacity

Calculating Capital Debt Repayment Capacity

Calculating Capital Debt Repayment Capacity

Step 2:
 Locate the total depreciation expense on Jack and Joanie's depreciation schedule add it to the net farm income.

$$14,741 + 7,103 = 21,844$$

Year	Year	Year	Year	Year	Year	Year	Year	Year	Year	Year	Year	Year	Year	Year	Year
2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

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Measures of Repayment Capacity

Calculate the Ratio: Cap

Calculating Capital Debt Repayment Capacity

Step 3:
Locate the non-farm income value on Jack and Joanie's statement of owner equity and add that to the previous total.

$$21,844 + 51,239 = 73,083$$

Step 4:
Locate the total family living expenses on the statement of owner equity and subtract it from the result of Step 3.

$$73,083 - 51,239 = 21,844$$

Step 5:
Subtract the amount recorded for income taxes from the total.

$$21,844 - 4,348 = 17,496$$

Jack and Joanie's Change in Owner Equity (From Blue Non-Farm)											
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Beginning Net Worth - Personal	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Beginning Net Worth - Total	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Net Farm Income	4,000	11,000	4,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Net Non-Farm Income	20,000	21,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000
Total Change	24,000	32,000	24,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000
Contributions to the Business	0	0	0	0	0	0	0	0	0	0	0
Net Non-Farm Income	0	0	0	0	0	0	0	0	0	0	0
Total Contributions to the Business	0	0	0	0	0	0	0	0	0	0	0
Withdrawals											
Owner Withdrawals for Personal Expenses	0	0	0	0	0	0	0	0	0	0	0
Family Living Withdrawals	10,000	11,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Income & 9% Taxes	0	0	0	0	0	0	0	0	0	0	0
Total Withdrawals	10,000	11,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Change in Value	14,000	21,000	14,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000
Net Farm Assets Available	0	0	0	0	0	0	0	0	0	0	0
Net Non-Farm Assets Available	0	0	0	0	0	0	0	0	0	0	0
Total Change in Value	0	0	0	0	0	0	0	0	0	0	0
Change in Owner Equity - Farm	0	0	0	0	0	0	0	0	0	0	0
Change in Owner Equity - Personal	0	0	0	0	0	0	0	0	0	0	0
Change in Owner Equity - Total	0	0	0	0	0	0	0	0	0	0	0
Ending Net Worth - Farm	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Ending Net Worth - Personal	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Ending Net Worth - Total	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000

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Measures of Repayment Capacity

Calculate the Ratio: Cost

Calculating Capital Debt Repayment Capacity

Step 6:
Add the amount for interest on long-term debts on Jack and Joanie's income statement to arrive at the capital debt repayment capacity.

$$17,496 + 2,640 = 20,136$$

INCOME STATEMENT											
Values in blue indicate that are positive for the ratio. Values in red indicate that are negative for the ratio.											
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Cost of Sales	2,244	2,308	2,400	2,500	2,600	2,700	2,800	2,900	3,000	3,100	3,200
Depreciation	100	100	100	100	100	100	100	100	100	100	100
Interest	2,640	2,640	2,640	2,640	2,640	2,640	2,640	2,640	2,640	2,640	2,640
Income	100	100	100	100	100	100	100	100	100	100	100
Net Income	100	100	100	100	100	100	100	100	100	100	100
Net Worth	100	100	100	100	100	100	100	100	100	100	100
Capital Debt	100	100	100	100	100	100	100	100	100	100	100
Capital Debt Repayment Capacity	17,496	17,496	17,496	17,496	17,496	17,496	17,496	17,496	17,496	17,496	17,496
Capital Debt	2,640	2,640	2,640	2,640	2,640	2,640	2,640	2,640	2,640	2,640	2,640
Capital Debt Repayment Capacity	20,136	20,136	20,136	20,136	20,136	20,136	20,136	20,136	20,136	20,136	20,136



Measures of Repayment Capacity

Calculate the Ratios, Cont.

Calculate Jack and Joanie's term debt and capital lease coverage ratio. Click Submit to check your answers.

Term Debt and Capital Lease Coverage

Net Farm Income	
+ Depreciation	
+ Net Non-Farm Income	
- Family Living	
- Income Taxes	
+ Interest on Term Loans	
= <input type="text"/>	
Scheduled Payments for Principal and Interest on Term Loans and Capital Leases	

Calculator



Audio:

Now, try calculating Jack and Joanie's term debt and capital lease coverage ratio using information from the income statement, book value balance sheet, and family financial records for example year 10.

Click the calculator icon to access a calculator tool.

Click Submit to check your answer.

Measures of Repayment Capacity

Calculate the Ratios, Cont.

Calculate Jack and Joanie's term debt and capital lease coverage ratio. Click Submit to check your answers.

Term Debt and Capital Lease Coverage

Net Farm Income	
+ Depreciation	
+ Net Non-Farm Income	
- Family Living	
- Income Taxes	
+ Interest on Term Loans	
= 1.64	

Scheduled Payments for Principal and Interest on Term Loans and Capital Leases

Submit

That's correct! You have correctly calculated Jack and Joanie's term debt and capital lease coverage.



Measures of Repayment Capacity

Calculate the Debt Service Coverage Ratio

Calculating Term Debt and Capital Lease Coverage Ratio

Step 1:

Locate the net farm income value on Jack and Joanie's income statement

	2013	2014	2015	2016	2017	2018	2019	2020	2021
Cash Receipts	44,600	42,500	43,800	45,000	46,500	48,000	49,500	51,000	52,500
Total	44,600	42,500	43,800	45,000	46,500	48,000	49,500	51,000	52,500
Costs									
Seed & Fertilizer	2,200	2,100	2,000	1,900	1,800	1,700	1,600	1,500	1,400
Feed & Hay	500	500	500	500	500	500	500	500	500
Labor	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Utilities	500	500	500	500	500	500	500	500	500
Labor - Other	500	500	500	500	500	500	500	500	500
Insurance	100	100	100	100	100	100	100	100	100
Interest	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Income Tax	500	500	500	500	500	500	500	500	500
Net Farm Income	31,800	29,900	30,800	32,100	33,700	35,300	37,000	38,500	40,100

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Measures of Repayment Capacity

Calculate the Ratios

Calculating Term Debt and Capital Lease Coverage Ratio

Step 2:

Locate the total depreciation expense on Jack and Joanie's depreciation schedule add it to the net farm income.

$$14,741 + 7,103 = 21,844$$

Asset	Date Acquired	Cost	Residual Value	Useful Life (Years)	Straight-Line Depreciation Expense	MACRS Depreciation			Total Depreciation Expense
						Year 1	Year 2	Year 3	
Land									
Buildings									
Tractors									
Trucks									
Plows									
Harrows									
Planting equipment									
Harvesting equipment									
Other farm equipment									
Total farm equipment									
Depreciation expense on farm equipment									
Total depreciation expense									

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Measures of Repayment Capacity

Calculate the Ratio: Cent

Calculating Term Debt and Capital Lease Coverage Ratio

Step 3:
Locate the non-farm income value on Jack and Joanie's statement of owner equity and add that to the previous total.

$$21,844 + 51,239 = 73,083$$

Step 4:
Locate the total family living expenses on the statement of owner equity and subtract it from the result of Step 3.

$$73,083 - 51,239 = 21,844$$

Step 5:
Subtract the amount recorded for income taxes from the total.

$$21,844 - 4,348 = 17,496$$

Jack and Joanie's Change in Owner Equity (From Blue Non-Farm)											
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Beginning Net Worth - Personal	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Beginning Net Worth - Total	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Net Farm Income	4,000	11,000	4,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Net Non-Farm Income	20,000	21,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000
Total Change	24,000	32,000	24,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000
Contributions to the Business	0	0	0	0	0	0	0	0	0	0	0
Withdrawals	0	0	0	0	0	0	0	0	0	0	0
Net Change in Owner Equity	24,000	32,000	24,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000
Change in Value	0	0	0	0	0	0	0	0	0	0	0
Change in Owner Equity - Personal	0	0	0	0	0	0	0	0	0	0	0
Change in Owner Equity - Total	24,000	32,000	24,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000
Ending Net Worth - Personal	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Ending Net Worth - Total	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000

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Measures of Repayment Capacity

Calculate the Debt Coverage Ratio

Calculating Term Debt and Capital Lease Coverage Ratio

Step 6:
Add the amount for interest on long-term debts on Jack and Joanie's income statement to arrive at the capital debt repayment capacity.

$$17,496 + 2,640 = 20,136$$

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Income Statement											
Revenue	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000
Expenses	17,496	17,496	17,496	17,496	17,496	17,496	17,496	17,496	17,496	17,496	17,496
Net Income	2,504	2,504	2,504	2,504	2,504	2,504	2,504	2,504	2,504	2,504	2,504
Cost of Sales	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Depreciation	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
Interest	2,496	2,496	2,496	2,496	2,496	2,496	2,496	2,496	2,496	2,496	2,496
Income Tax	100	100	100	100	100	100	100	100	100	100	100
Other	100	100	100	100	100	100	100	100	100	100	100
Net Income	2,504	2,504	2,504	2,504	2,504	2,504	2,504	2,504	2,504	2,504	2,504
Net Cash Flow	2,504	2,504	2,504	2,504	2,504	2,504	2,504	2,504	2,504	2,504	2,504
Net Debt Service	2,496	2,496	2,496	2,496	2,496	2,496	2,496	2,496	2,496	2,496	2,496
Net Cash Flow - Net Debt Service	8	8	8	8	8	8	8	8	8	8	8

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Measures of Repayment Capacity

Calculating the Ratio - Cont.

Calculating Term Debt and Capital Lease Coverage Ratio

Step 7:
Divide the capital debt repayment capacity by the scheduled payments for principal and interest on term loans and capital leases listed as total payments on Jack and Joanie's Capital Purchases - Loans and Cash Worksheet.

$$\frac{20,136}{12,288} = 1.64$$

CAPITAL PURCHASES - LOANS & LEASES											
Values in blue represent cash received in the year. Values in black represent cash out payments.											
	12/31/2016	12/31/2017	12/31/2018	12/31/2019	12/31/2020	12/31/2021	12/31/2022	12/31/2023	12/31/2024	12/31/2025	12/31/2026
Bank Debt/Leases:											
Start of Period	0										
Principal Payments	400	400	476	542	607						
Interest on Loans	0	0	0	0	0	0	0	0	0	0	0
Interest on Leases	0	0	0	0	0	0	0	0	0	0	0
Total Payments	400	400	476	542	607						
Start of Period	0										
End of Period	0										
Term Debt/Leases:											
Start of Period	0										
Principal Payments	0	0	0	0	0	0	0	0	0	0	0
Interest on Loans	0	0	0	0	0	0	0	0	0	0	0
Interest on Leases	0	0	0	0	0	0	0	0	0	0	0
Total Payments	0	0	0	0	0	0	0	0	0	0	0
Start of Period	0										
End of Period	0										
Other:											
Start of Period	0										
End of Period	0										
Total Payments	400	400	476	542	607						
Total Receipts	0	0	0	0	0	0	0	0	0	0	0
Total Payments - Total Receipts	400	400	476	542	607						



Measures of Repayment Capacity

Evaluating the Results

Financial ratios are most valuable when you have a value to compare them to. This might be your ratio calculations from previous years or industry **benchmarks**.

Benchmarks: oxygen saturation

Low	Moderate	High
95 - 99	90 - 95	< 90
No action necessary	Administer O ₂	Breathing assistance

These numbers are examples only. Always consult a doctor to evaluate real medical risk.

Financial benchmarks work much the same way. Variations will occur between size of operations, owned versus leased, types of operation, location of operation, and other factors.



Audio:

Financial ratios are most valuable when you have something to compare them to. This might be ratio calculations from previous years or industry benchmarks.

Benchmarks are guidelines or general rules of thumb related to a specific industry. For instance, a normal oxygen saturation level is between 95-99 percent. However, the level can vary with age, general health, and other variables. Thus, there is no single oxygen saturation percentage that can be considered normal. The benchmark range simply allows a doctor to interpret the measurement and to decide if further action is required.

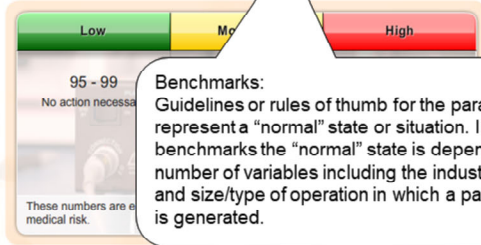
Financial benchmarks work much the same way.

Measures of Repayment Capacity

Evaluating the Results

Financial ratios are most valuable when you have a value to compare them to. This might be your ratio calculations from previous years or industry **benchmarks**.

Benchmarks: oxygen saturation



Financial benchmarks work much the same way. Variations will occur between size of operations, owned versus leased, types of operation, location of operation, and other factors.



Measures of Repayment Capacity

Financial Efficiency Benchmarks

Repayment Capacity Benchmarks	Low	Moderate	High
Capital Debt Repayment Capacity	The measure is a dollar amount. As such, it is difficult to compare farm businesses or to develop a standard for a particular type of farm business.		
Term Debt and Capital Lease Coverage	> 1.35	1.10 - 1.35	< 1.10

Possible Actions For Improvement: Increase the value of production, reduce production costs where prudent, control or reduce family living withdrawals, improve marketing practices, properly structure debt to revenue generation.



Audio:

Some benchmarks for financial efficiency ratio values are shown on screen.

The benchmarks are meant to be only a guideline for comparison purposes.

The correlated benchmarks are presented in terms of green, yellow, and red lights. A green light represents a financial strength with low risk. A yellow light corresponds to moderate risk, and a red light means weakness and high risk. A green light doesn't guarantee success, nor does a red light imply failure. A weakness in one area may be overcome by strengths in other areas.

Each farm operator should establish specific benchmarks for their specific farm operation.

Measures of Repayment Capacity

What Have You Learned?

Question 01 of 03

Select your answer(s) and click Submit for feedback.

According to industry benchmarks, what level of risk does Jack and Joanie's term debt and capital lease coverage indicate?

- Low Risk
- Moderate Risk
- High Risk

Submit



Audio:

Check what you have learned about measures of repayment capacity by answering the questions on screen. Click Submit to check your answers.

Measures of Repayment Capacity

What Have You Learned?

Question 01 of 03

Select your answer(s) and click Submit for feedback.

According to industry benchmarks, what level of risk does Jack and Joanie's term debt and capital lease coverage indicate?

- Low Risk
- Moderate Risk
- High Risk

Submit

Next Question

That's correct!

Jack and Joanie's term debt and capital lease coverage is in the low risk range.



Measures of Repayment Capacity

What Have You Learned?

Question 02 of 03

Select your answer(s) and click Submit for feedback.

What can Jack and Joanie do to improve their term debt and capital lease coverage ratio?

- Decrease net farm income
- Increase principal and interest payments by taking on more debt
- Increase depreciation expense
- Reduce family living withdrawals

Submit



Measures of Repayment Capacity

What Have You Learned?

Question 02 of 03

Select your answer(s) and click Submit for feedback.

What can Jack and Joanie do to improve their term debt and capital lease coverage ratio?

- Decrease net farm income
- Increase principal and interest payments by taking on more debt
- Increase depreciation expense
- Reduce family living withdrawals

Submit

Next Question

That's correct!
Reducing family living withdrawals will improve the term debt and capital lease coverage ratio.



Measures of Repayment Capacity

What Have You Learned?

Question 03 of 03

Select your answer(s) and click Submit for feedback.

What actions can you take to reduce the impact of family living withdrawals on term debt and capital lease coverage?

- Borrow money to purchase unnecessary or unprofitable assets
- Increase expenses while reducing revenues
- Limit family living withdrawals to better match business profitability goals
- Better manage to reduce expenses

Submit



Measures of Repayment Capacity

What Have You Learned?

Question 03 of 03

Select your answer(s) and click Submit for feedback.

What actions can you take to reduce the impact of family living withdrawals on term debt and capital lease coverage?

- Borrow money to purchase unnecessary or unprofitable assets
- Increase expenses while reducing revenues
- Limit family living withdrawals to better match business profitability goals
- Better manage to reduce expenses

Submit

That's correct!

Reducing expenses and limiting family withdrawals will reduce the impact on term debt and capital lease coverage.

