

## Chapter 2 - Record Keeping

**Net Worth Statement** - financial statement showing what is owned and owed at a particular point in time. \* Usually at the end of year

**Assets** - Items own or owned for profit

- Will be used or sold during the next accounting period (Normally a year)

**Non Current Assets**

- Not easily converted to cash and long term investment

**Liabilities** - all debts that going to come due during the next year

**Non Current Liabilities** - remaining loan balances on all loans after the current portion is subtracted

**Income Statement** - summarizing revenue and expenses for a year or accounting period

## Chapter 3 - Financial Analysis

**Liquidity:** ability of a business to generate enough cash to pay bills without disrupting business operations.

- **Current Ratio**
  - Current assets / current liabilities
- **Working Capital**
  - Current assets - current liabilities
- **Debit Structure** - *Higher percentage means will pay off debt faster.*
  - Current liabilities / Total liabilities
- **Asset Structure** - *not used stand-alone liquidity measure*
  - Current assets / total assets

**Solvency:** measures the ability of all assets, if sold at market value, to cover all debts.

- **Net Capital ratio** - *shows the total dollar value of assets per dollar of total debt*
  - Total Farm Assets / Total Farm Liabilities
- **Debt to Asset ratio** - *measures percent of total assets of the farm bus. Is owed to creditors*
  - Total Liabilities / Total Assets
- **Equity to Asset ratio** - *Measures percent of total assets financed by owner's equity capital*
  - Total Farm Equity / Total Farm Assets
- **Debt to Equity ratio** - *Measures relationship between debt financing & equity financing by the farm*
  - Total Farm Liabilities / Total Farm Equity

**Profitability Measures:** measures how efficient a business is in generating a profit from the use of the land, labor management and capital resources

- Net Farm Income from Operations (NFIFO)
  - Total Revenue - Total expenses, operating and fixed

- Net Farm Income (NFI)
  - NFIFO + any gain or loss on the sale of the capital items such as land & machinery
- Return on Assets (ROA)\*\*\* Unsure
  - NFIFO + Interest (from the income statement) - an opportunity cost of unpaid operator and family labor
- Return on Equity (ROE)
  - NFIFO - opportunity cost of unpaid operator and family labor
- Cost of Debt (COD)
  - Total Interest / Average Total Farm Liabilities
    - If ROA > COD, then ROE will be higher than ROA
    - IF ROA < COD, then ROE will be lower than ROA

If the COD is less than ROA causing ROE to be greater than ROA, then the debt capital is beneficial to the farm business

- Operating Profit Margin Ratio (OPMR)
  - Net Farm Income from Operations + Interest - Opportunity Cost of Unpaid Operator & Family Labor = Operating Profit Margin

**Financial Efficiency:** measures how effective the business is in generating revenue from the production and management decisions.

- Asset Turnover Rate (ATR)
  - Total Revenue / Average total assets
- Operating Expense Ratio (OER)
  - (Total Operating Expense - Depreciation) / Total Revenue
- Depreciation Expense Ratio
  - Depreciation Expense / Total Revenue
- Interest Expense Ratio
  - Total Interest Expense / Total Revenue
- Net Farm Income from Operations Ratio
  - Net Farm Income From Operations / Total Revenue