

Farm Financial Ratios and Benchmarks

Calculations & Implications

(> = greater than; < = less than)

Liquidity Analysis	Calculation	Strong	Stable	Weak
Current Ratio	Total Current Farm Assets ÷ Total Current Farm Liabilities	> 1.50	1.00 - 1.50	< 1.00
Working Capital	Total Current Farm Assets – Total Current Farm Liabilities	Compare with business expenses; amount varies by size of operation		
Working Capital Rule**	Working Capital ÷ Total Expenses	> 50%	20 - 50%	< 20%
Solvency Analysis	Calculation	Strong	Stable	Weak
Debt / Asset Ratio	Total Farm Liabilities ÷ Total Farm Assets	< 30%	30 - 70%	> 70%
Equity / Asset Ratio	Total Farm Equity ÷ Total Farm Assets	> 70%	30 - 70%	< 30%
Debt / Equity Ratio	Total Farm Liabilities ÷ Total Farm Equity	< 42%	42 - 230%	> 230%
Profitability Analysis	Calculation	Strong	Stable	Weak
Rate of Return on Farm Assets (ROA) <i>(mostly owned)</i>	(NFIFO* + Farm Interest Expense – Operator Management Fee) ÷ Average Total Farm Assets	> 5%	1 - 5%	< 1%
Rate of Return on Farm Assets (ROA) <i>(mostly rented or leased)</i>	(NFIFO* + Farm Interest Expense – Operator Management Fee) ÷ Average Total Farm Assets	> 12%	3 - 12%	< 3%
Rate of Return on Farm Equity (ROE)	(NFIFO* – Operator Management Fee) ÷ Total Farm Equity	Look at trends and compare to other farm and non-farm investments		
Operating Profit Margin	(NFIFO* + Farm Interest Expense – Operator Management Fee) ÷ Gross Revenue	> 25%	10 - 25%	< 10%
Financial Efficiency	Calculation	Strong	Stable	Weak
Asset Turnover Ratio	Gross Revenue ÷ Average Total Farm Assets	Depends heavily on type of operation and whether it is owned / leased		
Operating Expense / Revenue Ratio <i>(mostly owned)</i>	Operating Expenses (less interest & depreciation) ÷ Gross Revenue	< 65%	65 - 80%	> 80%
Operating Expense / Revenue Ratio <i>(mostly rented or leased)</i>	Operating Expenses (less interest & depreciation) ÷ Gross Revenue	< 75%	75 - 85%	> 85%
Depreciation Expense Ratio	Depreciation Expense ÷ Gross Revenue	compare to capital replacement and term debt repayment margin		
Interest Expense Ratio	Interest Expense ÷ Gross Revenue	< 12%	12 - 20%	> 20%
Net Farm Income From Operations Ratio	NFIFO* ÷ Gross Revenue	Look at trends; varies with cyclical nature of agricultural prices & income		
Repayment Analysis	Calculation	Strong	Stable	Weak
Term Debt and Lease Coverage Ratio	[(NFIFO* + Gross Non Farm Revenue + Depreciation Expense + Interest on Term Debts and Capital Leases) – Income Tax Expense – Family Living Withdrawals] ÷ Scheduled Annual Principal and Interest Payments on Term Debt and Capital Leases	> 150%	110 - 150%	< 110%
Debt Payment / Income Ratio**	Scheduled Annual Principal and Interest Payments on Term Debt and Capital Leases ÷ (NFIFO* + Gross Non-Farm Revenue + Depreciation Expense + Interest on Term Debts & Capital Leases)	< 25%	25 - 50%	> 50%

*NFIFO = Net Farm Income From Operations, excluding gains or losses from disposal of farm capital assets. ** Not an official standard or benchmark, but widely used in the financial industry. Developed by Dr. David Kohl, Agricultural Economist, Virginia Tech University. Modified by Greg Blonde, Waupaca County UW-Extension Agriculture Agent. March, 2009.