Financial Benchmarking Terms

Current Assets: any asset reasonably expected to be sold, consumed, or exhausted through the normal operations of a business within the current fiscal year. Typical current assets include cash, cash equivalents, short-term investments, accounts receivable, stock inventory.

Current Liabilities: all liabilities of the business that are to be settled in cash within the fiscal year.

Long-Term Assets: aka “fixed assets” also known as "tangible assets" or property and equipment that cannot easily be converted into cash.

Long-Term Liabilities: liabilities with a future benefit over one year, such as notes payable that mature longer than one year. The portion of long-term liabilities that must be paid in the coming 12-month period are classified as current liabilities. For example, a loan for which two payments of $1000 are due, one in the next twelve months and the other after that date, would be 'split' into two: the first $1000 would be classified as a current liability, and the second $1000 as a long-term liability.

Gross Farm Income or Total Revenue: income received by farm operators. Including cash receipts from the sale of farm products, government payments, other farm income (such as custom work), value of food and fuel produced and consumed on the same farm, rental value of farm dwellings, and change in value of year-end inventories of crops and livestock.

Net Farm Income (NFI): the return to farm operators for their labor, management and capital, after all production expenses have been paid (that is, gross farm income minus production expenses). It includes net income from farm production as well as net income attributed to the rental value of farm dwellings, the value of commodities consumed on the farm, depreciation, and inventory changes.

Current Ratio: is a financial ratio that measures whether or not a farm has enough resources to pay its debts over the next 12 months. It is expressed as follows:

$$\text{Current ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Debt-to-Asset Ratio: indicates the percentage of a farm’s assets provided via debt. It is the ratio of total debt (the sum of current liabilities and long-term liabilities) and total assets (the sum of current assets, fixed assets)

$$\text{Debt ratio} = \frac{\text{Total Debt}}{\text{Total Assets}}$$

Operating Profit Margin: proportion of revenue which is operating profit and available to pay down debt and invest in the business. Reflects the ability of the farm to generate a profit.

$$\text{Operating Profit Margin} = \frac{\text{NFI + Interest - Family Living Expense - Income Taxes}}{\text{Total Revenue}}$$