



COMPREHENSIVE GUIDE TO FARM FINANCIAL MANAGEMENT

Glossary of Terms and Financial Formulas

Glossary of Terms

Account Payable	Money owed by the business for the payment of expenses.
Account Receivable	Money owed to the business for the sale of goods and services.
Accrued Income Statement	A statement summarizing income when goods are produced and expense associated with producing those goods, when it is incurred, over a specified period of time.
Accrued Interest	Interest accumulated on a term loan from the date of the last principal payment.
Analysis	The separation of a whole into its parts so as to determine the nature of the whole.
Assets	The owned things of value and resources of the farm business or things of value and resources owed to the business.
Activities	Actions that take place on a day-to-day basis.
Balance Sheet	A listing of assets (traditionally valued at cost less accumulated depreciation) and liabilities of a business and the resultant owner's equity at a given point in time.
Business	A collection of resources devoted to the production of goods and services to generate a profit.
Cash Flow Statement	A record of all the cash flowing into and out of the business over a specified period of time.
Cash Income Statement	A statement summarizing farm operating income when it is received as cash and farm operating expense when paid for by cash over a specified period of time.
Current Assets	The most liquid assets that can easily be converted into cash within the accounting period (one year).
Current Liabilities	Debts that are due now or will come due within the accounting period (one year).

Current Ratio	A relative measure of liquidity expressed as a ratio by dividing current assets by current liabilities. May also be called the Liquidity Ratio.
Debt Ratio	A relative measure of solvency expressed as a ratio by dividing total liabilities by total assets. May also be called the Solvency Ratio or Debt to Asset Ratio.
Debt Service Capacity	The measure of the ability of the business to repay all debt from both farm and non-farm income.
Debt Structure Ratio	A relative measure of liquidity expressed as a ratio by dividing current liabilities by total liabilities.
Depreciation	The loss in value of capital assets over time due to use, age and obsolescence.
Earning Performance	The extent to which a business generates a surplus of revenue over expenses from the use of its resources in the production process. May be equated to profitability.
Effective Management	The achievement of agreed upon goals using a minimum of resources.
Equity	Claims against the assets of a business held by the owners of the business.
Financial Statements	Formal accounting reports disclosing financial information about the operations and condition of a business.
Fixed Assets	The most permanent production assets in which its useful life generally exceeds ten years.
Goal Directed Management	The effective use of resources to achieve goals.
Goals	Statements of objectives to be achieved in the future.
Income Statement	A statement of income and expense for an accounting period. May be called a profit and loss statement.

Intermediate Assets	Working assets that are used to support farm production and that have a useful life of between one and ten years.
Intermediate Liabilities	Those debts that had an original principal repayment schedule of between one and ten years.
Inventory	A listing of all physical and financial items owned by a business.
Leverage Ratio	A relative measure of solvency expressed as a ratio by dividing total liabilities by net worth. May also be called debt equity ratio.
Liabilities	Financial claims against the owned assets by others outside the farm business.
Liquidity	The ability of the business to meet its financial obligations as they come due.
Long Term Goals	Statements of objectives to be achieved in three or more years.
Long Term Liabilities	Debts that had an original principal repayment schedule greater than ten years.
Management	The decision making process whereby limited resources are allocated to a number of production, marketing and financing alternatives to achieve stated objectives.
Management Team	Two or more people working together to manage the farm business and family unit.
Management Team Goals	Goals the team is willing to commit themselves and their resources to.
Margin For Growth	The funds available for re-investment in the farm business or savings after meeting all financial claims (farm and family) on all available sources of income (farm and non-farm).
Net Worth	The difference between total assets and total liabilities that represents the proportion of ownership in the business (owner's equity).
Net Worth Statement	Lists all assets and records all liabilities of a business at fair market value with the difference showing as net worth (owner's equity) at a specific point in time.

Owner's Equity	The proportion of ownership in a business represented by the excess of total assets over total liabilities. Can be equated with net worth.
Percent Return to Assets	A relative measure of profitability expressed as a ratio by dividing the Return to Assets by Beginning Assets.
Percent Return to Equity	A relative measure of profitability expressed as a ratio by dividing the Return to Equity by Beginning Equity.
Planning	The process of thinking through what is desired and how it will be achieved in the future.
Prioritized Management Team Goals	Goals the team is willing and able to commit themselves and their resources to.
Product Inventory	Items produced by business and held for sale.
Profitability	The extent a business generates a surplus of revenue over expenses from the use of its resources in the production process. May be equated to earning performance.
Resources	Supplies that can be drawn on.
Return to Assets	An absolute measure of earning performance of all assets under the control of the business determined by subtracting the amount of unpaid family labour and management and adding the amount of term interest to Accrued Net Farm Income.
Return to Equity	An absolute measure of earning performance of all equity capital invested in the business determined by subtracting the amount of unpaid family labour and management from Accrued Net Farm Income.
Short Term Goals	Statements of objectives to be achieved in the next one to two years.
Solvency	The ability of a business to meet its total debt obligations from a liquidation of its total assets.
Supply Inventory	Items bought for use in the production process but that are still on hand.
Working Capital	A measure of liquidity determined by subtracting current liabilities from current assets.

Financial Formulas

Working Capital = **Current Assets – Current Liabilities**

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

Debt Structure Ratio = $\frac{\text{Current Liabilities}}{\text{Total Liabilities}}$

Debt Ratio = $\frac{\text{Total Liabilities}}{\text{Total Assets}}$

Leverage Ratio = $\frac{\text{Total Liabilities}}{\text{Net Worth}}$

Average Cash Balance for Period = $\frac{\text{Opening Cash Balance} + \text{Net Cash Balance}}{2}$

Interest Charged for Period = $\frac{\text{Average Deficit Cash Balance} \times \text{Interest Rate}}{\text{Time Period}}$

Return to Assets = **Accrued Net Farm Income – Unpaid Labour + Term Interest**

Percent Return to Assets = $\frac{\text{Return to Assets}}{\text{Beginning Assets}} \times 100$

Return to Equity = **Accrued Net Farm Income – Unpaid Labour**

Percent Return to Equity = $\frac{\text{Return to Equity}}{\text{Beginning Equity}} \times 100$