



Growing Forward 2 In Newfoundland and Labrador

Farm Financial Assessment Guidelines

Version 1.0



Farm Financial Assessment Guidelines

Minimum Requirements for a Farm Financial Assessment

A Farm Financial Assessment (FFA) is an analysis of the financial position of an agri-business. The basis of an FFA is your business's financial statements (primarily your balance sheet and income statement).

To be eligible for *Growing Forward 2* funding, a FFA must be completed by a qualified accountant or consultant. The criteria for a qualified accountant or consultant are:

- be a member in good standing of a recognized professional organization **or** have related post-secondary education in financial analysis;
- have experience in preparing financial statements or financial statement analysis;
- provide a minimum of two references from previous clients (names and telephone numbers) who can endorse past work of a similar nature.

Your accountant/consultant must provide the following indicators and must also provide an interpretation of each of these indicators to give you a better understanding of your financial performance.

Profitability

Operating Profit Margin: $\frac{\text{Net Farm Income} + \text{Interest Expense} - \text{Family Living and Income Taxes}}{\text{Gross revenues}}$

Return on Assets:
(ROA) $\frac{\text{Net Income} + \text{Interest Expense}}{\text{Total Assets}}$

Return on Equity:
(ROE) $\frac{\text{Net Income}}{\text{Total Equity}}$

Liquidity

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

Solvency

Debt-to-Asset Ratio: $\frac{\text{Total Liabilities}}{\text{Total Assets}}$

Financial Efficiency

Asset Turnover Ratio: $\frac{\text{Gross Revenue}}{\text{Total Assets}}$

Operating Expense Ratio: $\frac{\text{Total Operating Expenses} - \text{Depreciation}}{\text{Gross Revenue}}$

Amortization Expense Ratio: $\frac{\text{Amortization Expense}}{\text{Gross Revenue}}$

Interest Expense Ratio: $\frac{\text{Total Farm Interest Expense}}{\text{Gross Revenue}}$

Net Farm Income Ratio: $\frac{\text{Net Farm Income}}{\text{Gross Revenue}}$

Debt Repayment Capacity

Current Ratio (as above): $\frac{\text{Current Assets}}{\text{Current Liabilities}}$

Working Capital: Current Assets – Current Liabilities

Debt Coverage Ratio: $\frac{\text{Net Farm Income} + \text{Interest} + \text{Amortization} - \text{Living Expenses} - \text{Income Tax}}{\text{Debt Principal} + \text{Interest Payments}}$

Debt Repayment Capacity: Net Farm Income + Interest + Amortization – Living Expenses – Cash used for Capital Replacement

Debt Repayment Margin: $\frac{\text{Net Farm Income} + \text{Interest} + \text{Amortization} - \text{Living Expenses} - \text{Cash Used for Capital Replacement}}{\text{Debt Principal} + \text{Interest Payments}}$

Cash Flow Analysis

A three-year historical cash flow analysis.

A two-year cash flow projection.

Summary

A summary will include all the analysis and an interpretation of the financial position of your agri-business.