

**Session Three Exercise 7**

NAME \_\_\_\_\_

**Calculate the Ratios using Mike Harris's Business FSA Forms 2037 and 2038**

\$\$ Transfer the requested figures from the FSA Forms for Mike Harris located in the Session Three course materials

\$\$ Solve each ratio by dividing the top figure by the bottom figure.

\$\$ To see what each financial ratio determines for a farm operation, review the meanings on the Ratio Analysis insert in your folder.

**Figures from FSA Forms 2037 and 2038**

$\frac{\text{Current farm assets}}{\text{Current farm liabilities}}$	=	Current Ratio	$\frac{23,954}{20,806}$	=	1.15 115%	Current Ratio
--	---	---------------	-------------------------	---	--------------	---------------

$\frac{\text{Total farm and Nonfarm liability}}{\text{Total farm + Nonfarm assets}}$	=		$\frac{316,367 + 0 = 316,367}{465,530 + 0 = 465,530}$		0.679 67.90%	Debt-to-Asset Ratio
--	---	--	---	--	-----------------	---------------------

$\frac{\text{Farm cash income - oper expenses} - \text{Cash family living expense}}{\text{Total farm assets}}$	=	Return on Assets Ratio	$\frac{-1,005 - 23,000 = -24,005}{465,530}$		-0.051 -5.10%	Return on Assets Ratio
--	---	------------------------	---	--	------------------	------------------------

$\frac{\text{Cash farm oper expenses - interest}}{\text{Total cash farm income}}$	=	Operating Expense Ratio, also called E/I	$\frac{69,295 - 16,696 = 52,600}{68,290}$		0.77 77%	Operating Expense E/I ratio
---	---	--	---	--	-------------	-----------------------------

$\frac{\text{Interest Expense}}{\text{Total cash farm income}}$	=	Interest Expense Ratio	$\frac{16,695}{68,290}$		0.244 24.40%	Interest Expense Ratio
---	---	------------------------	-------------------------	--	-----------------	------------------------