How to Pull Non Revenue Assets, Living Costs, and Non Farm Debt Out of the Ratios

Normally, when a financial analysis is completed for a farm operation, all assets and debts along with all revenues and expenses are included and inputted into the analysis template. ABA is programmed to generate certain financial numbers and ratios from that information. Occasionally, those doing the financial review want to look at what the results would be without some of those components.

A good example of that is a situation where there is perhaps a modest farm operation which generates enough income to service the farm debt, and where there is non farm income used to cover living costs. This may be a very viable situation, and one in which the return to farm operations is satisfactory knowing that the farm income does not need to cover personal expenses. The ratios generated by ABA however would show lower returns to assets and equity because Family Withdrawals are included.

The Return on Asset and Return on Equity ratios generated on the Risk Ratios page are calculated as follows:

Return on Assets: $\dfrac{\text{Net Farm Income + Int. – Family Withdrawals (Liv. Costs \& Other)}}{\text{Total Assets}}$

Return on Equity: $\dfrac{\text{Net Farm Income – Family Withdrawals (Liv. Costs \& Other)}}{\text{Equity}}$

In the scenario above, the Return on Assets and Equity calculations would include Family Withdrawals, which, as per the above scenario description, may not be what is desired.

To generate the numbers wanted in this situation, then, an option is to have the Family Withdrawals taken out, then the new Return on Assets and Return on Equity amounts noted. With Family Withdrawals in, the user will have the other financial ratios and indicator numbers they want, but with them out, the user may have the desired Return on Asset and Return on Equity numbers required for this particular analysis.

This approach can be used as well where the user might want to calculate results where things such as Non Revenue Assets, Non Farm Debt, Non Farm Revenue, Non Farm Expenses etc. are excluded. As per the above, you can run the analysis with everything in, then run it again with certain items out to get those specific results.