

Financial Efficiency Analysis

Ratio: Operating Expense / Receipt Ratio (Operating Expense Ratio)

What it Tells You: How much cash you are spending to generate \$1 of revenue.

Example: Operating Expense Ratio = 0.75 or 75 percent
Indicates that you are spending \$0.75 in operating expenses for every \$1 of revenue you are generating.

How to Calculate:

<u>Procedure</u>	<u>Source</u>
1. Total Farm Expenses	Income Statement
2. Minus: Interest Expense	Income Statement
3. Minus: Depreciation Expense	Income Statement
4. = Total Cash Operating Expenses	
5. Gross Farm Revenues	Income Statement
6. Operating Expense/Receipt Ratio (Line 4 / Line 5)	

What's Good?: Generally, the lower the better.

Green Light: Less than 65 percent

Yellow Light: 65 - 80 percent

Red Light: Greater than 80 percent

How to improve a poor Operating Expense/Receipt Ratio:

1. Increase Farm Revenues - increase production, better marketing for higher prices
2. Decrease Farm Expenses - look to reduce your top 5 expenses
3. Improve Cost Control - examine your record keeping system