

Audio:

Welcome to Getting on Track: Understanding Financial Performance. In this course you will learn how to analyze the health of your business using financial ratios.

Click the next arrow to start at the beginning of the course or click the Menu link to select a lesson from the Main Menu. We recommend that you view the lessons in order the first time through the course.

Lesson 1

Introduction



Introduction

Meet Jack and Joanie

The Business

- Family farm with sheep and cut flower enterprises.
- In business 15 years.
- Run by Joanie with occasional hired help.

The Family

- Jack and Joanie; married 20 years.
- Two daughters; Jennifer, 16, and Julie, 14.
- Joanie's father is a retired loan officer who has provided Jack and Joanie with financial guidance and assistance in managing the business.



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Fifteen years ago Jack and Joanie started a farming enterprise to allow Joanie to stay at home with their children.

They started the business with a small cut flower enterprise and a couple of sheep. Over the years, they have significantly expanded both the flower and sheep enterprises.

Jack and Joanie have two daughters. Jennifer just turned sixteen and is beginning to think about going off to college. Julie is 14 and about to start high school.



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Jennifer has been looking for a job that will help her to earn some money for college.

The family farm has expanded to the point that at certain times of the year it is hard for Joanie to manage it all without some hired help.

Joanie approaches Jack with an idea.

Introduction

Changing Times, Changing Needs

Why don't we hire Jen and Julie to work on the farm rather than having them find jobs somewhere else? I could use the help.



Introduction

Changing Times, Changing Needs

It's a nice idea, but I'm not sure that the business can support two part-time employees on an ongoing basis.



Introduction

Financial Records

Jack and Joanie know that their financial records are complete and accurate by:

- Keeping all business receipts.
- Recording business income and expenses in a journal.
- Summarizing all journal entries in a monthly ledger.
- Developing an income statement from the monthly ledger to estimate profitability.
- Categorizing the information by enterprise to determine which combination of enterprises provides the greatest opportunity for profitability.



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When Jack and Joanie started their business, Joanie's father helped them set up some financial records.

Jack and Joanie have been keeping financial records ever since that time.

Introduction

Financial Statements

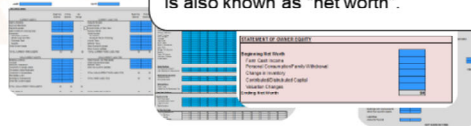
The financial statements that Jack and Joanie created include:

- Cash flow statements.
- Balance sheets.
- Income statements.
- Statements of owner equity.

These statements help the  determine whether the business is generating **equity** growth and **net farm income**.

If you are not familiar with financial statements, you should review the course *Getting on Track: Better Management through Financial Statements*.

Equity is the part of the assets you own. For example, your equity in the ranch is the value of the ranch assets less the amount you owe. Equity is also known as "net worth".



STATEMENT OF OWNER EQUITY	
Beginning Balance	
Net Farm Income	
Withdrawals	
Change in Ownership	
Change in Valuation	
Change in Debt	
Change in Assets	
Change in Liabilities	
Change in Equity	



Introduction

Financial Statements

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Net Farm Income is the amount of revenue remaining after operating expenses have been paid.

NAME	DATE
STATEMENT OF OWNER EQUITY	
Beginning Balance	
Cash and Income	
Withdrawals	
Change in Inventory	
Change in Prepaid Assets	
Net Change	
Ending Balance	



Introduction

Financial Analysis

The image displays several financial spreadsheets from a software application. One spreadsheet is titled 'STATEMENT OF OWNER EQUITY' and includes the following items:

NAME:	DATE:
STATEMENT OF OWNER EQUITY	
Beginning Net Worth	
Farm Cash Income	
Personal Consumption/Family Withdrawal	
Change in Inventory	
Contributions/Contributed Capital	
Valuation Changes	
Ending Net Worth	\$0

Logos at the bottom include: **RMA**, **UNIVERSITY of WYOMING**, **Profitable & Sustainable AGRICULTURAL SYSTEMS**, **W** (Western Wyoming University), **Colorado State Extension**, and **RMA**.

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Despite all the financial information available to Jack and Joanie, they are not sure how to use it to determine the financial health of their business and their ability to take on additional employees.

Joanie suggests that they call her Dad for some advice.

Introduction

Financial Analysis

Dad, how can we use our financial information to make business decisions?

The collage contains several elements: multiple screenshots of financial spreadsheets with various data points and tables; a photograph of a man and a woman smiling together; and silhouettes of three people in profile, appearing to be in conversation. The background is a soft-focus image of a large, bright orange flower.



Introduction

Financial Analysis

For example, like whether we can afford to hire the girls as part-time help.

NET WORTH EQUITY

Net Worth
Income
Inventory
Change in Net Worth

UNIVERSITY OF WYOMING

Profitable & Sustainable AGRICULTURAL SYSTEMS

Wyoming State University Extension

Colorado State Extension

RMA

Introduction

Financial Analysis

It sounds like you two need to begin doing some basic financial analysis.

STATE OF WYOMING
Net Worth
Income proof only Withdrawal
Inventory
Manufactured Center
on Charges
Net Worth

Logan Risk
UNIVERSITY of WYOMING
Profitable & Sustainable AGRICULTURAL SYSTEMS
Western Wyoming University Extension
Colorado State Extension
RMA

Introduction

In This Course

You will learn:

- Five key indicators of financial health.
- How to assess financial health using financial ratios.
- How to calculate a variety of financial ratios.
- Ratios parameters that indicate strength or weakness.
- Actions for improving financial performance in the five key areas.



Audio:

In this course you will follow Jack and Joanie as they learn how to analyze financial performance.

You will learn about five key indicators of financial health and how to assess them using financial ratios.

You will learn how to calculate a variety of ratios as well as the parameters that indicate financial strength or weakness. You will also receive some suggestions for actions you can take to improve financial performance in each of the five key areas.