KITCHEN TABLE CONSULTANTS

Key Financial Ratios to Consider

It's important to remember that these suggested ratios are relevant when a business has it's chart of accounts organized as KTC suggests - with the 'Seven Numbers' being distinguished by particular characteristics of how the money 'behaves' within the business transactionally.

Peer groups can use these ratios to compare their successes and failures to one another *only* if they have diligently aligned their charts of accounts.

Parent Account Name	***Account Characteristics***	***NE Vegetable Farm Healthy Ratios***	***Livestock Farm Healthy Ratios***
Income	Product and/or service sales by enterprise	Income is the basis of the ratios below - they are a % of sales	Income is the basis of the ratios below - they are a % of sales
Cost of Goods Sold (COGS)	Directly part of the thing you're selling, resale supply; fluctuates with sales (i.e., packaging)	Can vary depending on resale activity 10-25%	Varies quite a bit depending on scale 35-70%
Labor Expense *without Owner Pay* *with Owner Pay*	Management, and production staff expenses; wages, taxes, and fringe	 32-38% 42-48%	 20-25% 30-35%
General + Administrative Expense	Discretionary - owner decides what to spend; does not fluctuate with sales	Depends on growth strategy/marketing 5-15%	Depends on growth strategy/marketing 5-15%
Operating Expense	Not included as part of the thing you're selling; fluctuates with sales	Varies depending on COGS accounts 18-24%	8-12%
Fixed Expense	Fixed - owner has little choice of how much to spend; does not fluctuate with sales	5-10%	3-8%
One-Time Expense	Non-annual projects; larger non-depreciable supply	Budgeted - some farms like to set aside 2% of sales for projects and decide as the year progresses	Budgeted - some farms like to set aside 2% of sales for projects and decide as the year progresses

<u>Every farm is different.</u> These healthy ratios are what we have found to be true among the many clients we have worked with.

Depending on how you categorize your expenses and what you include within your parent account groupings, your ratios could be very different from those in the table. For example, if your Operating Expense ratio is low, you might see that your COGS ratio is high - in relation to the ratio ranges listed in the table.

If your ratios *<u>are</u>* very different, it begs the questions:

1. Do you need to re-organize your chart of accounts?
2. Are you consistent with how you categorize your transactions?
    a. If so, what do you see in trends over time that could illuminate another issue?
3. Is there an operational process/methodology that needs to be changed?