

## Glossary of Terms

Assets	Are all the resources used to operate a dairy farm business, including both owned and leased assets. Assets include land and buildings, improvements, permanent water rights, plant and equipment, livestock, feed on-hand, cash and farm management deposits
Break-even response	The amount of extra production required for the extra income to cover the extra cost. Calculated via the relationship between input price and output price expressed as a ratio
Cash overhead	Costs include administration, farm insurance, repairs and maintenance, paid labour
Cost of production (COP) excluding inventory change	<p>This includes all the variable and cash overhead costs described above PLUS noncash overheads (Imputed labour and depreciation).</p> <p>COP = variable costs + cash overhead costs + imputed labour + depreciation</p> <p>COP in \$ per kg milk solids = COP ÷ total milk solids produced</p>
Cost of production (COP) including inventory change	<p>This takes the COP calculation above and adjusts for changes to feed and water inventory and livestock inventory. Both calculations for COP are shown in the Dairy Base Profit Report.</p> <p>COP (inc inv chg) = variable costs + cash overhead costs + imputed labour + depreciation +/- feed &amp; water inventory</p> <p>Changes +/- livestock inventory changes (closing value – opening value – purchases)</p> <p>(Leave out: finance costs, leasing costs, principal repayments, capital purchases, personal drawings, tax payments.)</p>
Depreciation	This is the calculated cost for the loss in value of plant and machinery used to run the business.

<p>Earnings before interest and tax (EBIT)</p>	<p>The key measure of profit from operating the business before interest, lease and tax payments have been deducted.</p> <p>EBIT = Gross farm income minus variable costs – overhead costs (cash and non-cash)</p> <p>Gross farm income includes all income from cash and non-cash sources including net milk income, livestock trading profit (or loss), and other farm income.</p> <p>Costs include Variable costs (Herd Shed and Feed) plus Overhead costs (cash overheads plus Imputed labour and depreciation).</p> <p>EBIT \$/kg MS = EBIT ÷ total milk solids produced (Leave out: non-farm income, interest and lease payments, principal repayments, capital expenses, personal drawings and tax.)</p>
<p>Equity</p>	<p>The total value of the business that the owners own. It is also known as Net Worth, owner’s capital or wealth.</p> <p>Equity = Owned Assets minus Liabilities.</p> <p>Equity is measured in total dollars and is commonly expressed as a percentage of all owned assets.</p> <p>Equity % = Equity ÷ Total Assets Owned x 100.</p>
<p>Farm Cash Income</p>	<p>The money you receive from milk and livestock sales and any other farm income.</p>
<p>Farm operating cash surplus</p>	<p>This is the total farm cash income less the farm working expenses.</p>
<p>Farm working expenses (FWE)</p>	<p>These are all the direct or cash costs that have been incurred during the year, including:</p> <p>FWE = variable costs + cash overhead costs.</p> <p>FWE in \$ per kg milk solids = FWE ÷ total milk solids produced.</p> <p>Farm working expenses is a useful measure to identify the cash costs of production and prepare cash flow budgets. It can help in short term planning and adjusting to changes in input costs or milk price.</p>
<p>Finance costs</p>	<p>Include all farm finance interest and lease costs.</p>

Interest costs	Are the amount of interest paid on all farm related debt for the year. (Leave out principal repayments, bank fees (include in overhead costs), personal loans not related to the business).
Imputed labour	This is the value of the hours worked by the farm owners or operators, and family members, who are not paid a wage or salary for their time.
Lease costs	Are the costs incurred for leasing assets that are used in the business, mainly relating to farm machinery and land. Include the cost of lease for land if the lease is for 12 months. If less than 12 months the lease cost is classified as a feed cost.
Liabilities	The debts owed by the business.
Margin	The economist's way of saying 'extra' or 'added.'
Marginal revenue	The extra income obtained from an extra input (extra output x price).
Marginal cost	The extra cost of one unit of input (extra input x cost).
Net farm cash flow before tax and drawings	This is the farm operating cash surplus less finance costs, principal repayments and capital purchases. (Leave out: finance costs, leasing costs, principal repayments, capital purchases, personal drawings, tax payments.)
Net farm income	Is the profit remaining after the cost of financing the business (interest and leasing costs) has been deducted from EBIT.
Non-cash overhead costs	Includes items where cash is not removed from the business to pay for the cost. Examples of this type of cost are imputed labour and depreciation.
Opportunity cost	What you give up by choosing a course of action.
Profit maximising level of input	The point where the marginal revenue/income from applying an extra input equals the marginal cost.
Return on equity (ROE)	<p>This is a measure of the rate of return on the owner's investment in the business. ROE is calculated from the Net Farm Income (NFI) in the Profit report, divided by the value of the owner's equity, and shown as a percentage:</p> $\text{ROE \%} = \text{Net Farm Income} \div \text{equity} \times 100$ <p>Remember that Net Farm Income is EBIT minus interest and lease costs.</p>

Return on total assets (ROTA)	<p>The primary measure that shows how efficiently a business uses its total assets, including all owned and leased assets. It indicates the amount of profit earned relative to the amount of money invested in all assets.</p> <p>ROTA %= EBIT ÷ Total assets managed x 100.</p> <p>This is a common measure used in business comparisons, as it shows how the business performed from trading or operating. It does not include debt or the cost of servicing debt, or capital growth. It can be used to compare efficiency of your business between years, to compare with other farm businesses and to compare alternative uses of the capital, such as bank deposits or investing in the share market.</p>
The law of diminishing marginal returns	<p>If increasing amounts of one input are added to a production process, while the use of all other factors is held constant, then the amount of extra output resulting from each unit of increased input will eventually decrease. This applies to all biological systems.</p>
Tonnes to kilograms	Divide tonnes by 1,000.
Variable costs	Herd, shed and feed costs