

Glossary of Terms

Accruals accounting	Income and expenses are recorded in the month when they occur, even if payment or invoice is yet to be received
Assets	All the resources used to operate a dairy farm business, including owned and leased resources
Balance sheet	A record of assets owned and debts owed at a given point in time with values given. A balance sheet will show assets, liabilities and equity
BAS statement	Business Activity Statement used for reporting and paying goods and services tax (GST), pay as you go (PAYG) instalments, PAYG withholding tax and other tax obligations
Capital expenditure	Money spent on purchasing assets, including land, machinery and livestock
Cash accounting	Income and expenses are recorded in the month when they are actually received and paid. This is the most common approach and typically used for tax reporting
Cash report	An annual summary of income and expenses
Creditors	People or businesses that you owe money to
Debt	Borrowed money still owed. Can be long term or short term and used to invest in the business and assets. Short term debt can include overdrafts, lines of credit, credit cards, hire purchase or leasing. Refer to finance costs.
Drawings	Money used for personal expenses
Earnings before interest and tax (EBIT)	Key measure of profit from operating the business before interest, lease and tax payments have been deducted
Farm cash income	Shows all cash income into the farm business, including net milk sales, net livestock sales, fodder sales, temporary water sales and other farm cash income
Farm operating cash surplus	Total farm cash income less Farm Working Expenses (FWE)
Farm working expenses (FWE)	All the direct or cash costs incurred during the year, including variable costs (herd, shed, feed) and cash overhead costs (eg rates, labour, insurance). FWE is a useful measure to identify the cash costs of production and prepare cash flow budgets.
Feed costs	The most significant variable cost on dairy farms and usually the largest cost for the business. Separated into home grown feed costs and purchased feed costs

Finance costs	Money required to service debt, that is how much it costs to pay interest on loans and debt
Financial data	Financial information in your farm business including income, expenses, assets, liabilities, livestock trading and debt
Gross farm income	All farm income, including cash income from sales of milk, livestock, feed, other farm income and non-cash income from a change in livestock numbers or increased feed on hand
Gross margin	Gross farm income less total variable costs
Imputed labour cost	The amount of money you would have to find if the hours now worked unpaid had to be paid for. Typically provides for the hidden cost of owner operator's labour.
Income	All of the money earned by the dairy business, usually expressed in terms of a time period such as month or year. Can be cash or non-cash income and includes milk income, livestock sales, fodder sales and other.
Interest	The amount charged, expressed as a percentage of principal, by a lender to a borrower. Interest rates are typically noted on an annual basis, known as the annual percentage rate (APR)
Invoice	A bill, or a list of goods sent or services provided, with a statement of the amount due for these
Lease costs	Costs incurred in leasing assets, including land and machinery
Liabilities	All debts owed by the business - separated into current and non-current liabilities
Liquidity	Refers to a business's ability to pay its bills from cash or from assets that can be turned into cash very quickly
Livestock inventory	A record of all livestock that are part of the dairy business over a financial year. It is also called a livestock reconciliation.
Management accounts	A term used to describe summarised business data (for example, balance sheet, cash budget, milk statement) prepared or sourced regularly to provide information to a business manager. This could be monthly, fortnightly or weekly with the objective being to provide timely information required by managers to make day-to-day and short term decisions.
Net farm income	The profit remaining after the cost of interest on borrowed funds and lease costs have been deducted
Net worth	Another term for equity. It is the total value of the business that the owners own. Equity = assets minus liabilities

Overdraft	A debt facility provided by banks to allow for a deficit in a bank account caused by drawing more money than the account holds
Overhead costs	Costs incurred when operating a dairy farm business, also known as fixed costs. These include cash overhead costs and non-cash overhead costs.
Physical data	Information relating to the operation of a dairy farm business including land, livestock, milk production, feed, rainfall, irrigation, labour and fertiliser.
Profit & loss (P & L)	A financial statement that summarizes the revenues, costs and expenses incurred during a specific period of time, usually a financial quarter or year
Profit report	A report that shows gross farm income, total operating costs, EBIT, cost of production, net farm income, return on total assets (ROTA) and return on equity (ROE).
Return on equity (ROE)	A measure of the owner's rate of return on their own investment in the business
Return on assets (ROA)	The return on assets owned by the farm business (excluding leased land). $ROA \% = (EBIT - \text{lease costs}) / \text{assets owned} \times 100$
Return on total assets (ROTA)	A key profit measure that describes how well the farm business has used its owned and leased assets to generate a profit. $ROTA \% = EBIT / \text{Total assets managed} \times 100$
Statement of position	Generally used as an alternative name for a balance sheet (see above). May be tailored to suit different audiences, for example, for presentation to a bank it might include an annual cash budget and profit and loss statement.
Tax accounts	Accounts that deal with a person or company's financial information, so that it is possible to calculate how much tax they must pay
Total operating costs	Includes variable costs, cash overhead costs and non-cash overhead costs from depreciation and imputed labour.
Variable costs	Total of herd, shed and feed costs. Variable costs help to estimate the impact of changes to milk production, herd size or seasonal conditions on costs. (Refer fact sheet C2)
Working capital	Working Capital = Current Assets - Current Liabilities. It indicates whether a company has enough short term assets to cover its short term debt. It provides a measure of both a company's efficiency and its short-term financial health