

FINANCIAL LITERACY

Learning to read starts early in life. It's a critical skill. Financial literacy and being able to read the language of money and finance is a skill often neglected but one that's also hugely important. The terms and jargon can be daunting if they're not familiar to you, so we are stepping you through some of those terms with our glossary.

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GLOSSARY

BALANCE SHEET

A balance sheet is a snapshot of your financial position at a specific time. It shows:

- **Assets:** What you own
- **Liabilities:** What you owe
- **Equity:** What's left after subtracting what you owe from what you own.

For example, if you want to borrow money, the bank will look at your balance sheet to understand your financial situation. Sometimes it is referred to as your statement of financial position.

ASSETS

These are the things you own. Even if you still owe money on them, they count as assets.

Example: If you have a tractor worth \$50,000 but still owe \$20,000, the tractor is listed as an asset at its full value of \$50,000.

LIABILITIES

Liabilities are your debts – what you owe to others.

This could include:

- Bank loans
- Money you owe for equipment
- Debts to family or other lenders.

EQUITY

Equity is the part of your assets that you actually own outright. It's calculated like this:

Assets - Liabilities = Equity

Example: If your assets are worth \$500,000 and you owe \$300,000, your equity is \$200,000.

DEBT TO EQUITY RATIO

This ratio shows how much of your business (total asset value) is funded by debt. Banks use this to measure risk.

Debt/Asset x 100

Example: If you owe \$100,000 and have \$200,000 in assets:

$$\frac{\$100,000}{\$200,000} \times 100 = 50\%$$

RETURN ON ASSETS (ROA)

This measures how much profit you're making from your assets. It's useful for assessing the efficiency of your assets to generate a return and is a good way to compare investments.

Return (or operating profit)/asset value x 100

Example: If you have an operating profit of \$800,000 and assets worth \$9 million:

$$\frac{\$800,000}{\$9,000,000} \times 100 = 8.8\%$$

TOTAL RETURN ON ASSETS (TROA)

Similar to ROA but also includes any gain or loss in the value of your assets over the year.

Example: If your operating profit is \$800,000 and your assets increased in value from \$9 million to \$9.35 million:

$$\frac{\$800,000 + \$350,000}{\$9,000,000} \times 100 = 12.7\%$$

RETURN ON EQUITY (ROE)

ROE shows how much profit you're making from the money you've invested, not just the total assets, after accounting for loan interest.

(Return - Interest Cost) / Equity x 100

Example: If your operating profit is \$800,000, interest costs are \$394,200, and equity is \$4.5 million:

$$\frac{\$800,000 - \$394,200}{\$4,500,000} \times 100 = 9.02\%$$

BUDGET

A budget is your financial plan for the year. It lists all your income (like milk and stock sales) and your expenses (like farm running costs).

CASHFLOW REPORT

A cashflow report shows when money comes into your business account and goes out each month. It helps you see when you'll need extra funds, like an overdraft, to cover expenses during low-income or high-expense months.

MONTH TO DATE OR VARIANCE REPORT

This report compares your actual budget or cashflow with what you expected, showing whether you're on track or not.

EARNINGS BEFORE INTEREST AND TAX (EBIT)

EBIT is your income after all farm operating costs are paid, but before interest and tax are taken out.

OPERATING PROFIT

Operating profit includes all your income and expenses, as well as changes in the value of things like livestock, feed inventory, and depreciation. Unpaid family labour and support adjustments are also made. These adjustments ensure that operating profit is the best way to compare farms on a like-for-like basis. It can be expressed on a per hectare per kg milksolids (MS) or per cow basis when making comparisons.

DEPRECIATION

Depreciation is the gradual loss in value of equipment, buildings and infrastructure over time due to wear and tear. While it doesn't directly affect your cash balance in the short term, over longer periods of time it should approximate the capital expenditure required to replace these items.



GLOSSARY

CASH SURPLUS

The cash surplus from farming operations over the year. It is measured by total free cash plus introduced funds, less capital expenditure, net change in debt, net drawings and extraordinary expenses.

CASH OPERATING SURPLUS

Net Cash Income less Farm Working Expenses. It is the cash available after paying for farm working expenses.

STOCK UNIT (SU)

This is the feed requirement used as the basis of comparison for different classes and species of stock. It expresses the annual feed requirements, equivalent to one 55kg ewe rearing a single lamb. One LSU requires approximately 520 kg of good quality pasture dry matter per year. For example, 1 Jersey cow = 6.5 LSU.

DAIRY OPERATING PROFIT

A measure of dairy farm profitability. The calculation is Dairy Gross Farm Revenue (GFR) less Total Dairy Operating Expenses. It is the dairy operating return after an allowance for the value of change in dairy livestock numbers, non-paid labour and management, supplementary feed inventory change, owned run-off adjustment and depreciation.

DISCRETIONARY CASH

The cash available to meet capital purchases, debt repayments, drawings, and extraordinary expenses (discretionary items). The calculation is Cash Operating Surplus less rent, interest and tax plus net non-dairy cash income change in income equalisation and net off-farm.

ECONOMIC FARM SURPLUS

A measure of farm profitability and is now referred to as Operating Profit.

FARM WORKING EXPENSES

Total dairy farm cash expenditure, including labour, stock, feed, other working expenses and overheads.

GROSS FARM REVENUE:

Dairy Gross Farm Revenue (GFR) - cash and non-cash revenue from net milk, net livestock (adjusted) and other dairy farm-related revenue.

KPI:

Key Performance Indicator.

OPERATING EXPENSES:

Total farm operating expenses - cash and non-cash.

OPERATING PROFIT MARGIN %:

Farm operating profit as a percentage of gross farm revenue. This measures how well a farm generates profit from its revenue.

BREAK EVEN MILK PRICE

The breakeven milk price is the price at which your income from selling milk exactly covers all of your farm's expenses (including operating costs, debt, and other financial obligations).

STOCK RECONCILIATION

A stock reconciliation is the process used to balance or reconcile the actual number of stock on the farm back to what the stock numbers were at the start of the financial year.

Watch and listen to ["What is a stock reconciliation?"](#)