

DairyNZ money management basics

Quick Cash Budget

Why is business profitability so important?

Profit provides choices. Profitability doesn't usually happen by accident.

Choices enable farmers to expand the business, reduce debt or pay themselves higher drawings.

Why budget?

Budgeting allows you to:

- Take financial control of your business
- Assess the viability of new proposals, borrowing or ventures
- Plan cash income and expenditure.

The starting point for improving business performance is a plan. The plan should reflect the input of all key stakeholders (husband and wife, equity partners, company directors).

The challenge of running a business is being able to make decisions, because being able to make decisions ultimately shapes where you will end up.

Without a budget it is difficult for the manager of a business to be proactive and as a consequence they tend to react to situations, which is often too late.



Having someone from outside the business included in this process, questioning your assumptions, can be very useful.

Remember financial control of your business rests squarely on your shoulders.

Budgeting basics

An annual cash budget indicates if the business is sustainable and viable. It will tell you if you can expect a cash surplus or deficit (loss) at the end of the season.

The process of creating a cash budget is simple, you will need:

- A budgeting tool, for example:
 - Spreadsheet
 - Budgeting software
 - Pen and paper.
- Good accurate records for forecasting the coming season
 - Production
 - Stock reconciliation
 - Financial records.
- Uninterrupted time set aside
- Input from key partners.

If you don't have last year's accounts, expenditure estimates can be obtained from various sources, such as:

- The DairyNZ Economic Survey (0800 4 DAIRYNZ or 0800 4 324 7969 or dairynz.co.nz)
- Your bank manager
- Your accountant or business consultant
- The Lincoln University Financial Budget Manual
- Your local DairyNZ consulting officer.



Historical records may reveal trends in the business that need to be accounted for.

Step by step guide to using the DairyNZ Quick Cash Budget

The attraction of completing a Quick Cash Budget is that a big picture overview of the business can be gained very quickly. Many people know their Farm Working Expenses and can estimate debt servicing and drawings relatively easily.

A quick budget simplifies both milksolids income and farm working expenses, so that a budget can be quickly prepared so as to gain an overview of the business.

For example, if we receive \$5.50/kgMS in milk revenue and another \$0.26 in livestock sales, we have a total income of \$5.76. Where is this going? If we are spending \$3.25 on FWE, \$1.39 on debt servicing and \$0.61 on drawings, that leaves us \$0.51 spare without any other expenses. It provides us with a quick look at the situation.

Getting started

Take advantage of the rural professionals who support your business – rural bankers, veterinarians, farm consultants, supply store staff and company representatives (i.e. fertiliser reps). They will be able to provide you with a range of valuable information on market trends, input costs, and general advice on how to fine tune your business to be productive and profitable.

Name, date and farm information

Start with the physical details for the season you plan to forecast and what period this budget is for, e.g. 1 June 2010 to 31 May 2011

Quick Cash Budget						
Name	Tom & Jane Smith			Budget Period	1 / 6 / 2010	to 31 / 5 / 2011
Farm Details:	122,500 kgMS	350 cows	125.0 ha	350 kgMS/cow	980 kgMS/ha	2.80 cows/ha



Working out income for your farm business

Milksolids production and payout

- Use your production target for the season and decide on a payout figure
- Contact your dairy company representative
- Speak to your banker.



What signals or information are out there in the market? Look for commentary from your dairy company, banks, MAF, DairyNZ and others to help estimate the payout. Forecast your milk income at a conservative level in your budget and then review as necessary.

Net Livestock sales

- Look at stock reconciliations from previous seasons
- Add together likely sales of calves, bobbies, culls and so on
- Subtract from this any purchases you may make during the season.

Other income

- Using the template as a guide, work out other dairy income from rent, rebates, stock leases etc
- Many farm businesses have other sources of income during the season. Estimate your likely income for the year from sources such as income equalisation and off-farm wages or non-dairy operations.

Calculating total income

- Add together dairy cash income and total in the Net Dairy Cash Income cell
- Now add the remaining non-dairy items and you have Total Income.

Income		\$ Total	\$/kgMS	\$/cow	\$/ha
Dairy Cash Income					
Milksolids income	122,500 kgMS x \$ 5.50 /kgMS	\$673,750			
Net livestock sales (calves + culls + other - purchases)		\$32,000			
Other dairy income (eg farm cottage rental, rebates, stock leases)		\$4,000			
Net Dairy Cash Income		\$709,750			
Net Income Equalisation & Funds Introduced (eg inheritance, new equity)		\$5,000			
Other Income (eg non-dairy income (eg beef), off-farm income)		\$15,000			
Total Income		\$729,750			

Production target

Use the most likely predicted payout

Add these to get Net Dairy Cash Income



Obtain assistance from your bank manager, consultant or accountant, but take charge and get very good at budgeting.

Calculating income and expenses for \$/kgMS, \$/cow, \$/ha

For the income section you will have filled in the \$ Total column

- If you have \$ Total figures then dividing any of these amounts by either total milksolids production for the season, peak cows or hectares will give you income per kgMS, per cow and per hectare.

Same figure

Income		\$ Total	\$/kgMS	\$/cow	\$/ha
Dairy Cash Income					
Milksolids income	122,500 kgMS x \$ 5.50 /kgMS	\$673,750	\$5.50	\$1,925	\$5,390
Net livestock sales (calves + culls + other - purchases)		\$32,000			
Other dairy income eg farm cottage rental, rebates, stock leases		\$4,000			
Net Dairy Cash Income		\$709,750			
Net Income Equalisation & Funds Introduced eg inheritance, new equity		\$5,000			
Other Income eg non-dairy income (eg beef), off-farm income		\$15,000			
Total Income		\$729,750			

Total Milksolids Income (\$673,750) ÷ cows (350) = \$1,925/cow

Total Milksolids Income (\$673,750) ÷ ha (125) = \$5,390/ha

Working out expenses for your farm business

Farm Working Expenses (FWE)

- Use your last two to three years' sets of financial statements
- When estimating FWE remember to allow for increased costs, for example, changes in costs due to on-farm inflation.

What to do if you have a per kgMS, per cow or per hectare figure

- One way to complete the remaining cells is to take the \$ per cow/kgMS/ha number and multiply it by cows/milksolids/hectares to give a total farm figure.

E.g. If I estimate FWE to be \$3.25/kgMS then $\$3.25 \times 122,500$ milksolids = \$398,000 total.

Quick Cash Budget						
Name	Tom & Jane Smith		Budget Period	1 / 6 / 2010 to 31 / 5 / 2011		
Farm Details:	122,500 kgMS	350 cows	125.0 ha	350 kgMS/cow	980 kgMS/ha	2.80 cows/ha
Income	\$ Total		\$/kgMS	\$/cow	\$/ha	
Dairy Cash Income						
Milksolids income	122,500 kgMS	x \$ 5.50 /kgMS	\$673,750	\$5.50	\$1,925	\$5,390
Net livestock sales (calves + culls + other - purchases)			\$32,000	\$0.26	\$91	\$256
Other dairy income eg farm cottage rental, rebates, stock leases			\$4,000	\$0.03	\$11	\$32
Net Dairy Cash Income			\$709,750	\$5.79	\$2,028	\$5,678
Net Income Equalisation & Funds Introduced eg inheritance, new equity			\$5,000	\$0.04	\$14	\$40
Other Income eg non-dairy income (eg beef), off-farm income			\$15,000	\$0.12	\$43	\$120
Total Income			\$729,750	\$5.96	\$2,085	\$5,838
Expenses	\$ Total		\$/kgMS	\$/cow	\$/ha	
Farm Working Expenses			\$398,000	\$3.25		
Other expenses eg non-dairy expenses, off-farm expenses						
Rent eg milking land lease, cow lease, (excludes run-off)						

$$\text{FWE } \$/\text{kgMS } (\$3.25) \times \text{kgMS } (122,500) = \text{FWE Total } \$398,000$$



Budgets prepared without using historical accounts generally overestimate cash surpluses.

Total Expenses

- There are a number of other cash expenses during the season, refer to previous financial accounts for help
- If you don't know your total interest bill for the season check with the bank
- If you plan to pay off principal during the season or increase borrowings calculate this in the Net Debt row
- Tax should be calculated last (after all income and expenses have been forecast) by either using the Tax estimator at the foot of the template or by contacting your accountant
- Now that all columns have been completed calculate your Total Expenses figure
- Do this for each column (\$ Total, per kgMS, per cow, per hectare).



DairyBase benchmarking reports for your region are a good check to determine average FWE and so on. Remember, if trimming back costs is your goal you may prefer to be benchmarked against the Top 50% or Top 20% of farms in your region. Talk to your accountant or DairyNZ consulting officer.

Expenses	\$ Total	\$/kgMS	\$/cow	\$/ha
Farm Working Expenses	\$398,000	\$3.25	\$1,137	\$3,184
Other expenses eg non-dairy expenses, off-farm expenses	\$5,000			
Rent eg milking land lease, cow lease, (excludes run-off)	\$10,000			
Interest	\$170,000			
Tax * ask accountant or see estimate formula below	\$29,025			
Drawings	\$75,000			
Net capital transactions (capital purchases less sales eg land, shares, machinery)	\$50,000			
Net debt (loan repayments less new borrowings)	-\$40,000			
Total Expenses	\$697,025			

Check with bank

Estimating tax:

Total income	\$729,750
- FWE	\$398,000
- other expenses	\$5,000
- rent	\$10,000
- interest	\$170,000
- depreciation	\$50,000
Taxable profit =	\$96,750
\$96,750 x 30%	= \$29,025



The DairyNZ Economic Survey is published annually and contains tables of average farm financial data for the past decade. There is also a forecast section which may help indicate trends in the current season. Order a copy online by visiting dairynz.co.nz

Calculating a cash surplus or deficit for your farm business

- Total Income less Total Expenses gives either a cash surplus or cash deficit for the season.

Quick Cash Budget						
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Other expenses eg non-dairy expenses, off-farm expenses			\$5,000	\$0.04	\$14	\$40
Rent eg milking land lease, cow lease, (excludes run-off)			\$10,000	\$0.08	\$29	\$80
Interest			\$170,000	\$1.39	\$486	\$1,360
Tax * ask accountant or see estimate formula below			\$29,025	\$0.24	\$83	\$232
Drawings			\$75,000	\$0.61	\$214	\$600
Net capital transactions (capital purchases less sales eg land, shares, machinery)			\$50,000	\$0.41	\$143	\$400
Net debt (loan repayments less new borrowings)			-\$40,000	-\$0.33	-\$114	-\$320
Total Expenses			\$697,025	\$5.69	\$1,992	\$5,576
Cash Surplus/Deficit			\$32,725	\$0.27	\$93	\$262

Total Income (\$729,750) - Total Expenses (\$697,025) = Cash Surplus/Deficit (\$32,725 surplus)

What next?

You've completed your Quick Cash Budget - fantastic.

Take some time now to digest what you have found and consider the implications. If you have a surplus, great. You need to ask yourself how you will use this surplus.

If your budget shows a loss accept this, don't hide it. Everyone involved in your business needs to know where you stand. Refer to 'Budgets what next?' for more details.

The next step in budgeting is to complete an Annual Cash Budget for your business. An annual cash budget is a traditional budget detailing cash income and expenses. It indicates if the business is sustainable and will tell you if you can expect any cash surplus or a deficit (loss) at the end of the season.

If you'd like to gain a better picture of cash requirements (including working capital) during the season, then move on to completing a Monthly Cashflow Budget. The Monthly Cashflow Budget allows you to drill-down into expenses on a month-by-month basis.



When doing your budget prepare three scenarios – best case, most likely situation, and a 'war' budget. Only put the absolute essentials in your 'war' budget – this budget may not be sustainable for the long term, but it will help during times of tight cashflow.

Other budgeting tools

You can use a range of tools and sources to help get started with budgeting and help to fine tune and monitor budgets on a regular basis. Getting started is the hardest part; once you have good records and systems in place budgeting will be a breeze.

Develop your own budget

Microsoft Excel is an excellent tool. You can develop cells for each month across the top and cells for each input item (income and FWEs and so on) down the side. Use the features of the spreadsheet to add columns and rows and do calculations needed to evaluate cashflow.

Use commercial products

Cashmanager RURAL helps farmers prepare, monitor and review their finances. Cashmanager allows you to record transactions, do monthly cashflows, GST, generate invoices, keep a wagebook, run reports for your bank manager, accountant and yourself to track profitability: crssoftware.co.nz

BankLink is designed to reduce manual data entry. Transaction information is sent electronically from banks and other organisations to your accountant. BankLink data is easy to monitor, code against farm expenses and income, and may be used to generate cash reports and budgets.

Bank budget templates - ask your banker if they have a template you may use. Your farm advisor or consultant may use software to assess the farm business, ask them if they have anything appropriate for budgeting.

Ask your accountant if they have budget or financial recordkeeping templates that could be useful for you to use and may incorporate well with the systems in place at their practice. Potentially this could save you money if your accounts are in order when you hand them on.

Refer to your Fonterra or co-operative website. For example the Fencepost fonterra.com website has a handy Payment Predictor in the Tools section (only accessible by Fonterra suppliers).

Resources to help you budget

DairyBase reports are extremely useful as you can see what you have spent historically and how this compares with benchmarks for your region: dairybase.co.nz

The DairyNZ Economic Survey is published annually and contains tables of average farm financial data for the past decade. There is also a forecast section which may help indicate trends in the current season: dairynz.co.nz/economicsurvey

Budgets - what next?

Completing a budget and then filing it away is where the process breaks down for many farm businesses.

Budgeting is an ongoing process, used to help make decisions for your farm business.

To follow are a range of additional budgeting topics that may help you to better utilise budgets in your farm business.

Managing a cash surplus or deficit

Cash surplus

If your budget indicates a cash surplus at the end of the financial year, you need to ask yourself how you will use this surplus. For example you may wish to explore options for investing back in your farm business, pay off debt or seek off-farm investment opportunities. These decisions should be made in line with your personal and business goals. A successful and profitable business will always set some guidelines for the cash surplus or profit they wish the business to deliver. You might like to calculate what return on investment your business is delivering to you.

Cash deficit

If you have a deficit, ask yourself some hard questions:

1. What is the major issue here – lack of production and therefore income; farm working expenses too high; or the financial structure and funding of the business?
2. Do I need to make major or minor changes to make this budget work?

Review your production level:

1. Focus on profitability, not production
2. Maximise pasture growth and utilisation – for an average farm 30% pasture grown is not eaten by the cow vs. 15% on the best farms. Can you increase utilisation? Pay daily attention to pasture residuals and rotation length, which drive quality and quantity, which in turn drives production
3. Match the cows feed demand to pasture growth more closely – appropriate stocking rate, calving date and rate, cow quality and performance (milksolids production at 80% liveweight), and pasture management.

Review your farm working expenses:

1. For big changes review your farm system and your feed, labour and fertiliser inputs –what can you do to control costs, what system would deliver your best profit. Focus on profitability, not production
2. Review and update on the principles of profitable pasture based farm systems – many NZ dairy farmers have forgotten how to use our most cost effective food source of grass, as they have learned to feed more expensive supplements
3. Examine your expenditure again – eliminate discretionary spending, particularly spending on feed and fertiliser. For smaller changes look at all other costs and question every item of expenditure.

Focus on financial structure

1. Is your balance sheet resilient and sustainable over the medium to long term?
 - a. Yes – formulate a plan and war budget to manage in the short term as above
 - b. No – structural issues need to be addressed
 - i. Do you have any poor performing or non-income producing assets which could be realised?
 - ii. Do you have an opportunity to introduce equity – perhaps a family member or outside investor is interested in investing.
 - iii. Could you realise some productive assets?
2. Keep in touch with your bank manager and accountant.
3. Remember the more effort you put in, the more effort the bank will put in.

It may be worthwhile to look back over your budgeting process; were your targets and forecasts for the season realistic? Were you conservative enough? Too conservative? When setting targets, base your figures on the last five years production or expenses, look at trends in your expenditure, talk to people-in-the-know and most of all make sure the numbers look realistic.

Monitoring and updating budgets

Budgets are management tools and should be reviewed at least every two months to monitor actual income and expenses against what was forecast. Planning and monitoring allows you to be more pro-active and less reactive - to concentrate more on fire prevention rather than on fire fighting.

When reviewing and updating budgets, assess the difference between the forecast and actual figures. Identify actions you need to take based on the variances:

- Is spending getting out of control in any areas?
- Was income higher than anticipated?
- Will higher income affect your working capital/overdraft needs?

Feed, fertiliser, wages and repairs and maintenance are generally the biggest components of expenditure. Go through past budgets and highlight the major expenses. Could you make any changes?

Whilst monitoring performance is absolutely essential, trying to focus on all measures can be distracting.

There are key times to review and update your budgets:

1. During the season (at least every two months) or when changes occur:
 - a. Milk income - keep up-to-date with commentary on milk income announcements and gauge whether it is anticipated to change again during the season – favourably or otherwise.
 - b. Expense cost variations, e.g. fuel price increases or feed costs change from budget
 - c. Major un-planned expenditure (new tractors etc)
 - d. Unexpected changes to production (drought, flood, etc).
2. At the end of the season
 - a. Compare actual and forecast figures
 - b. Provides information for forecasting/preparing budgets for the next season.

Cost effective expenditure is not a slash and burn approach. It is about careful planning and setting farm policies to ensure you get value for money, reach targeted production and keep costs low on a per kilogram of milksolids basis. Remember to keep the focus on profitability and increased productivity.



Remember FWE are correlated to milk income, so when milk income increases FWE increase as well. If you adjust your budget for milk income changes then consider how FWE may be affected, particularly feed.

What if...

Once you have completed a budget, it is useful to look at how sensitive your forecast is to changes. Carry out some 'what if' scenarios. Situations may arise that will impact on your cash position or 'bottom line'.

What would happen if:

- Your production decreases by 5% or 10% due to drought
- Milk income drops by 5%
- Expenses spike (e.g. fertiliser costs increase by 15%)

Running sensitivity scenarios allows you to gain a clear picture of how exposed your cash position is to risk. It can equip you with the skills to review your budget to ensure you will be able to meet goals and targets, even when unexpected situations arise.

Engaging staff and other stakeholders

Working in a business inevitably means working with other people who will have direct and indirect influences on how your business performs and how well (or poorly) you are able to stick to your budget and achieve business goals.

Engage your staff and other key stakeholders in relevant parts of your budgeting process. Be transparent about expenditure levels and involve staff by asking for ideas on how to make cost-effective decisions.

It may be useful to develop a farm finance policy that staff have access to and ensure they understand spending decisions and desired outcomes.

Benchmarking

Annual accounts can be of much more use than calculating the income tax position of the business. A well-prepared set of annual accounts provides a huge amount of information about the business. The accounts will also clearly and accurately detail the profitability of the business.

Benchmarking is useful as it can highlight areas of a business that need to be focused on to improve profitability. Benchmarking within the business over several years is just as useful as comparing yourself to other businesses. Get involved in benchmarking your business by using a tool such as DairyBase. DairyBase uses your annual accounts to produce reports for the farm business, allowing you to monitor and benchmark your business performance. Contact your accountant, rural professional DairyNZ Consulting Officer or visit dairybase.co.nz to find out more.

Need more...

If you'd like to get the most out of your budget and set direction for your business, there are several courses available:

- DairyNZ Mark and Measure Courses (Business Performance, Strategic Management) – run every year in May and June. See www.dairynz.co.nz for more details.
- Icehouse Agribusiness Program. See theicehouse.co.nz for more details
- Rabobank Executive Development Program. See rabobank.co.nz/Rural/Education/Pages/Education.aspx for more details
- BNZ Farm First Growth Program. See farmfirst.co.nz for more details.

Glossary

Asset Turnover %

Dairy Gross Farm Revenue as a percentage of Opening Dairy Assets. The rate of asset turnover measures how well a farm generates dairy revenue from its assets.

Benchmark

A reference point against which to measure something and compare performance.

Budget (1)

An itemised summary of expected income and expenditure over a specified period.

Budget (2)

Economical or inexpensive.

Capital expenditure

Purchases of capital items such as fixed assets (land, machinery, plant & buildings) and investments (including cooperative shares).

Capital transactions

Purchases less sales of capital items such as fixed assets (land, machinery, plant & buildings) and investments (including cooperative shares).

Cash deficit

Cash expenses are greater than cash revenue (income).

Cash surplus

The cash surplus from farming operations over the year. It is the cash income generated, minus the cash expenses of farm working expenses, rent, interest, tax, drawings, net capital transactions, and net debt. In other words, it is the cash left over after all the bills are paid.

Cash operating surplus

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

Cashflow budget

A financial budget showing expected income, expenses, the resulting surplus or deficit and bank balance over a given time period. It is most commonly prepared annually, showing the cashflow on a monthly basis for 12 months, and is updated and monitored monthly.

Closing balance

The closing bank balance is calculated monthly by taking the closing balance of the previous month and adding the cash surplus or deficit for the current month. For example, the closing bank balance for August equals the closing bank balance for July plus the cash surplus/deficit for August.

Dairy Assets

The assets used to generate dairy income e.g. land, plant, machinery, stock, dairy shares, etc.

DairyBase

DairyBase is the industry's web-based system for recording and standardising annual farm physical and financial information. The aim of DairyBase is to lift the use of financial benchmarking in the dairy industry by providing clearly defined and readily available performance data through a set of comprehensive reports. Value is added through the analysis and interpretation of results which allow for fact-based management decisions to be made on-farm. See dairybase.co.nz.

DairyNZ Economic Survey

Annual survey of dairy farm financial performance with analysis of trends over time and historical financial tables, for owner operators and sharemilkers.

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.

Debt

A debt is money that is owed. Another name for a debt is a liability.

Debt to Assets %

Closing Total Liabilities as a percentage of Closing Total Assets. This measures the proportion of the business value that is borrowed by the owners.

Distributable Profit

The total profit from Fonterra's business activities available for distribution to farmer shareholders by way of dividend.

Dividend

The amount of Distributable Profit actually paid to farmer shareholders in respect of any financial year. Usually this is expressed on a cents per share basis. (Value Return was previously used to describe the amount of Distributable Profit paid out to farmer share, on a cents per kgMS basis. This term is no longer relevant as profit is now being distributed via dividend payments).

Drawings

Household cash expenditure, e.g. living expenses, overseas holidays, donations, life insurance and private portion of farm cash expenditure.

Economic Farm Surplus (EFS)

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

Equity

The difference between what you own and what you owe i.e. your net worth.

Farm Working Expenses (FWE)

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

Funds introduced

An injection of cash from sources that are not required to be paid back, e.g. inheritance, one-off relief payments for damage caused by adverse weather events such as floods, or any other non-taxable off-farm income.

Forecast

A forecast in certain contexts means the same as a budget. A forecast more commonly means to calculate or estimate in advance income, revenues, production and costs.

Leverage

Borrowing money for investment/s, leverage is also known as gearing.

Milk Price

The price paid to farmer shareholders for milk supplied to Fonterra, on a cents per kilogram of milksolids basis.

Monthly cashflow

A financial budget showing expected income, expenses, surpluses, deficits and bank balances over time that is usually prepared annually, showing monthly periods. Actual income and expenses can be compared against originally budgeted figures.

Net Borrowings

Increased loans or debt. Net Debt is the debt repaid during the season less the increase in borrowings (increased debt) during the season.

Net Income equalisation

The income equalisation scheme allows farmers who are eligible taxpayers to even out fluctuations in income by spreading their gross income from year to year. Net income equalisation payments during the year are calculated by taking the income equalisation balance at close less the income equalisation balance at open.

Net Non Dairy Cash Income

Total cash income generated from farm assets that are not dairy related less total non-dairy farm expenses. These might include revenue from wool, velvet, firewood, metal royalties, orchard products, viticulture, or forestry harvest. It also includes large one-off revenue items such as one-off forestry harvests.

Net Off-farm Cash Income

Off-farm cash income less off-farm cash expenses.

Opening balance

Opening bank balance at the start of the season for farm operations.

Operating expenses

Total dairy operating expenses, including cash and non cash items.

Operating profit margin %

Dairy operating profit as a percentage of dairy gross farm revenue. This measures the percentage of the revenue which is profit.

Overdraft

An overdraft is an extension of credit from the bank, during the season as cash flows in and out of the farm business an overdraft may be required to continue operating.

Payout

The payment that farmers receive for kg milksolids produced.

Principal

The original amount of a debt on which interest is calculated.

Quick Cash Budget

A simplified financial budget showing expected cash income and expenses (with no farm working expenses detailed) for one season.

Retentions

The amount of Distributable Profit that is not paid to farmer shareholders, and is retained within Fonterra's balance sheet.

Return on Assets % (RoA%)

Operating Profit (whole business) plus owned run-off adjustment less rent as a percentage of Opening Assets. The RoA measures the profit generated from all the assets employed in the business, and expresses it as a percentage return.

Return on Dairy Assets % (RoDA%)

Dairy operating profit plus owned run-off adjustment less rent as a percentage of opening dairy assets. The RoDA measures the profit generated from the dairy assets employed and expresses it as a percentage return.

Return on Equity (ROE) % (excluding change in capital value)

Total operating profit plus owned run-off adjustment plus net off- farm income less rent less interest as a percentage of opening equity. The RoE measures the return on the funds of the owner but does not include the change in capital value.

Strategic management

The process around developing a vision of what you want your life to be like and the principles you want to live by. This is combined with the development of strategies and actions taken to lead you towards achieving that vision.

Stock reconciliation

Stock numbers for a given season, including the category of stock, those born, bought, sold or which die.

Total return on assets % (TROA%)

Total operating profit [plus owned run-off adjustment] less rent plus change in capital value divided by opening total assets. The TROA is the profit generated by the assets employed plus capital gains and losses. It measures the overall financial performance of the business.

Working capital

The amount of money that a farm business has available to conduct its day-to-day activities.