Financial planning for rice

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Rice Fact Sheet

Introduction

For a farmer to make informed decisions he must understand the basics of financial management and be able to analyze his business financially so he/she can plan future activities and compare enterprises.

Key concepts in financial planning

Gross income

Gross income is the total money earned from growing the crop or operating the farming enterprise.

Variable costs

Variable Costs are expenses which vary in size positively with variation in the growing, milling and marketing of the crop.

Gross margins

A gross margin is the difference between the gross income generated by growing the crop and the variable expenses in doing so. Gross margins do not include overhead costs such as rates, electricity, insurance, living costs and interest that must be met regardless of whether or not a crop is grown.

Fixed or overhead costs

Fixed costs are costs which do not vary with the level of output and must be paid whether a crop is grown or not. These include interest rates and opportunity costs, housing and insurance and permanent labor.

Determine profitability

The net profit generated by growing a crop is determined subtracting the variable and fixed cost from the total or gross income generated by growing the crop

Net return = Gross return - Variable cost - Fixed Cost (FC)

Return to management or investment

When operating a business the owner needs to able to calculate what return is being attained against the money invested.

Return to investment is the gross return divided by the total investment for the season

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