

Total costs, Net profit and Profit

In Form 2 the Profit and the Net profit per one unit (= per 1 ha and year) are calculated. Both indicators are calculated by subtracting the production costs from the output.

In the Form before the calculation of the Net Profit/Profit at first all relevant costs positions should be calculated and added in a step-by-step procedure (column "Total costs").

Besides the variable costs of supplies and services, which are already considered in the gross margin calculation, there are also:

Form. 2	
15-16	- costs of average capital invested in current assets
18-19	- costs of labour (productive)
21-22	- costs of land (agriculturally utilized area)
23	- costs of production and supply rights
26-27	- depreciations, where applicable: maintenance, insurance, etc. for fixed assets
28-29	- costs of capital invested in fixed assets
30-31	- costs of general labour
32-33	- other fixed special costs and overhead costs
	3-7

To be able to analyse different scenarios there is a possibility to change the percentages of own and borrowed capital for the factors capital, labour and utilized land. For own and borrowed factors various costs percentages can be taken into account (opportunity costs for own factors, costs for borrowed factors). The difference between Net Profit and Profit is that in the calculation of the Profit no opportunity costs for own production factors (capital, labour and land) are taken into account, whereas they are considered in the calculation of the Net Profit.

If fixed assets can be used alternatively, then (for the calculation of Net Profit) the highest of the fixed and opportunity costs are taken into consideration (no double accounting)

Interpretation

In the example calculation the output 1,033 €/ha is lower than the total costs; 1,066 €/ha
the net profit is, therefore, negative: -33 €/ha

According to the definition mentioned above the profit is 285 € (opportunity costs) higher than the net profit:

If to the net profit -33 €/ha the opportunity costs contained in the calculation are added 285 €/ha then the resulting profit accounts for: 252 €/ha

A positive profit represents the amount of money remaining for the return from own production factors (family labour, own capital, own land) after the costs of the used supplies, machinery, buildings, equipment as well as wages, interest and rent payments are covered. A positive net profit shows that all (including own) production factors have a rate of return; for own factors it means a better rate of return than an alternative.

If the profit is positive, but the net profit is negative, it means that all production including wages, interest and rent payments can be paid, but there is not enough money remaining for the used own factors to have an adequate rate of return.