



Transforming Lives through Quality Education

## DIVISION OF RESEARCH & EXTENSION

# Cost and Benefit Analysis in Farming

### What are costs and benefits in your farming?

Costs are the expenses you incur in all the operations within the farm. Cost can be fixed or variable. Fixed costs are the costs that do not change despite changes of activities in the farm for example the cost of buying a tractor. However, fixed cost can change after a long period of time, say 5 years. Variable costs are expenses that keep on changing within the farm such as the cost of purchasing fertilizers or livestock feeds. Benefits on the other hand are the returns you receive from the invested you have made. There are three kinds of returns, either profits, losses or returns equal to the cost of investment.

### Why analyse the costs and benefits in your farming?

The results tell you whether your investment is worthy. Analysis determines costs in production and revenues from sales then computes returns by subtracting costs from revenues.

### Step by step analysis of costs and benefits

1. Take records of all the materials bought and services like labour used in the farm.
2. Against each material and service, indicate the costs.
3. Include the costs of materials used that were already in the farm like tractor.
4. Do also include the cost of items not yet paid and services yet to be paid
5. Find the total of the costs used above.
6. Similarly, take records of all the sales made from the produce.
7. Include sales made on cash, cheque and credit.
8. Find the total of the sales
9. Compare the totals between the costs and sales
10. Obtain the difference between the two.

Budget Item	Description	Unit	Unit Cost	Total
<b>Revenues (KSh)</b>				
Sales		1000kg	80	80,000
<b>Costs (KSh)</b>				
Land	Leased	1 ha	7000	7000
Ploughing	A new land	1 ha	3000	3000
Light				
Harrowing	Done ones	1 ha	500	500
Seeds		25kg	200	5000
Fertilizer	DAP	1 Bag	3500	3500
Labour				
1	Planting	10 people	250	2500
2	Weeding	10 people	250	2500
3	Harvesting	8 people	250	2000
4	Post Harvesting			
	a). Threshing	3 people	300	900
	b). Sun drying	3 people	900	2700
	Insecticide	Litres 5	3000	1500
	Fungicide	100mls	800	800
	Sacks	20 pcs	50	1000
Unrecorded costs	10% of T.C			3290
<b>Total Cost</b>				<b>36,910</b>
<b>PROFIT (Total revenue – Total costs)</b>				<b>43,810</b>

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