Cost Concepts

1. Costs are generated following certain cost concepts. These cost concepts and the items of costs included under each concept are given below:

   **Cost A1:**
   i. Value of hired human labour.
   ii. Value of hired bullock labour.
   iii. Value of owned bullock labour.
   iv. Value of owned machinery labour.
   v. Hired machinery charges.
   vi. Value of seed (both farm produced and purchased).
   vii. Value of insecticides and pesticides.
   viii. Value of manure (owned and purchased).
   ix. Value of fertilizer.
   x. Depreciation on implements and farm buildings.
   xi. Irrigation charges.
   xii. Land revenue, cesses and other taxes.
   xiii. Interest on working capital.
   xiv. Miscellaneous expenses (Artisans etc.).

   **Cost A2:** Cost A1 + rent paid for leased in land.
   **Cost B1:** Cost A1 + interest on value of owned fixed capital assets (excluding land).
   **Cost B2:** Cost B1 + rental value of owned land (net of land revenue) and rent paid for leased-in land.

   **Cost C1:** Cost B1 + imputed value of family labour.
   **Cost C2:** Cost B2 + imputed value of family labour.
   **Cost C2*:** Cost C2 adjusted to take into account valuation of human labour at market rate or statutory minimum wage rate whichever is higher.
   **Cost C3:** Cost C2* + value of management input at 10 percent of total cost (C2*).

2. Imputation Methods

Some of the inputs used in the production process are provided by family sources. The criteria adopted for deriving imputed values of these inputs is given below:

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Items</th>
<th>Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1)</td>
<td>(2)</td>
<td>(3)</td>
</tr>
<tr>
<td>i)</td>
<td>Family Labour</td>
<td>On the basis of statutory wage rate or the actual market rate, whichever is higher.</td>
</tr>
<tr>
<td>ii)</td>
<td>Owned Animal Labour</td>
<td>On the basis of cost of maintenance, which includes cost of green and dry fodder and concentrates, depreciation on animal and cattle shed, upkeep labour charges and other expenses.</td>
</tr>
<tr>
<td>iii)</td>
<td>Owned Machinery Charges</td>
<td>On the basis of cost of maintenance of farm machinery, which includes diesel, electricity, lubricants, depreciation, repairs and other maintenance expenses.</td>
</tr>
</tbody>
</table>
iv) Implements: Depreciation and charges on account of minor repairs.

v) Farm Produced Manure: Evaluated at rates prevailing in the village.

vi) Rent of owned land: Estimated on the basis of prevailing rents in the village for identical type of land or as reported by the sample farmers subject to the ceiling of fair rents given in the land legislation of the concerned State.

vii) Interest on owned fixed capital: Interest on present value of fixed assets charged at the rate of 10% per annum.

3. Allocation / Apportion of Joint Costs:
The expenditure incurred on, or imputed for, some of the cost items relate to the farm as a whole. Such joint costs are allocated to individual enterprises, among different categories of livestock and so on. Depreciation on farm buildings and implements, land rents, land revenue, cesses and taxes, interest on owned fixed capital are such costs, which are allocated to each category of crops in proportion to their areas. The cost on livestock is allocated to each category of animals in proportion of its numbers to the total number of animals owned by the farmer.

The apportionment of total costs incurred jointly on different crops grown in mixture crops is done in proportion to the total value of output contributed by individual crops in the crop mixtures. The apportionment of total costs of cultivation between the main product and the by product(s) is done in proportion to their contribution to the total value of output.

4. Evaluation of Farm Assets:
The criteria adopted for the evaluation of farm assets is given below:

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Asset</th>
<th>Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Owned and self cultivated land</td>
<td>Evaluated at rates prevalent in the village, taking into account the differences in type of soil, distance from the village, source of irrigation available etc.</td>
</tr>
<tr>
<td>2</td>
<td>Farm buildings (cattle sheds, storage sheds etc.)</td>
<td>Evaluated at rates prevailing in the village</td>
</tr>
<tr>
<td>3</td>
<td>Implements and other farm machinery</td>
<td>Evaluated at market prices</td>
</tr>
<tr>
<td>4</td>
<td>Livestock</td>
<td>Evaluated at market prices</td>
</tr>
</tbody>
</table>
5. **In the excel sheet, various items of Cost of Cultivation is described below:**

A1: - All actual expenses in cash & kind incurred in production by owner  
[Item 11- 11.1.1 + 12.3 + 12.4]  
A2: - A1+ Rent paid for leased-in-land (Item 12.2)  
B1: - A1+ Interest on value of owned capital assets (excluding land) (Item 12.5)  
B2: - B1+ Rental value of owned land (net of land revenue) & rent paid for leased in land  
(Item 12.1 & 12.2)  
C1: - B1+ Imputed value of family labour (Item 11.1.1)  
C2: - B2+ Imputed value of family labour (Item 11.1.1)  
**REVISED C2:- C2 + Additional value of human labour based on use of higher wage rate,**  
i.e. statutory wage rate or actual market rate (as derived from cost study data)  
C3: - Includes managerial cost [Revised C2+10% of Revised C2]

6. **Cost of Production** is calculated by multiplying the ratio of Value of Main Product to Cost of Cultivation and the ratio of Value of Main and By-Product to Derived Yield.

7. **Assumptions made for estimating costs for Coconut crop:**
   1. The economic life of a coconut palm has been assumed to be 50 years.  
   2. A coconut palm stars bearing fruit from the beginning of 8th year.  
   3. The rate of interest has been taken as 6% per annum for the purpose of working out amortised establishment cost.