Know Your Costs Of Production On The Farm

OZARK, MO.

How can a producer know if the operation is profitable if he or she doesn't have an accurate accounting of all the costs associated with the operation?

It is an important question to consider according to Dr. Gordon Carriker, agriculture business specialist with University of Missouri Extension.

Carriker says what many producers overlook is that the tax collector does not care if they earn $1 per hour or $100 per hour for the time they spend working and managing their farm. That's a decision the producer has to make and using enterprise budgets is a good way to determine the economic profitability and feasibility of the farm enterprises.

"I am amazed at the willingness of producers to work on their own farm for less than a reasonable wage. As an economist, I look past accounting profits – the profits that the IRS is interested in for taxes – and look at all costs including opportunity costs and thus economic profit," said Dr. Carriker.

There are several things a producer can do to help them determine their production costs according to Dr. Carriker.

First, determine what the enterprise is: for example a cow/calf enterprise ends when the calf is weaned (producing a calf) for later sale; a backgrounding/stocker enterprise begins (producing beef or breeding stock) when the calf is kept for growing.

Second, get a sample enterprise budget. Some very good ones are available through the University of Missouri Extension website: http://agebb.missouri.edu/mgt/budget.

Third, keep track of all production costs. This includes "sweat" labor time as well as "thinking" labor (management) time. "This is the biggest opportunity cost producers tend to overlook. Management time is more valuable in the market place than physical labor time," said Carriker.

Fourth, account and allocate costs to the appropriate enterprise. If a farm truck is being used one fourth of the time as the family truck, one fourth of the time for a crop enterprise and one half the time for a livestock enterprise, do not allocate all the truck fuel and maintenance costs to the livestock enterprise.

Fifth, do not forget to allocate ownership – sometimes referred to as fixed costs – to an enterprise. These include insurance, depreciation and taxes on capital items.

Sixth, do not be overly optimistic or pessimistic about expected revenues. "A good practice is to look at a few sale prices, say a low, medium and a high sales price, for the product being sold," said Dr. Carriker. Δ