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## Using Averages to Create Budgets

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# CORNHUSKER ECONOMICS

## Using Averages to Create Budgets

As we gather and create averages of farm data each year, I'm often asked if the average is a good measure for budgeting. After all no farm is truly "average." I think by understanding the averages and having some knowledge of your own costs, you can create a meaningful budget for any farm. So what do you need to know about the averages? It is helpful to know the range for the field, the median or middle number, as well as some of the assumptions that are made when gathering the information. A copy of a sample budget at the end of this article will help you lay out a per acre budget for Irrigated Corn on Cash Rented land. The "NFBI Average" column is the most recent data (2007) collected from a sample of farms across Nebraska. There is also a column to enter your data next to the average.

The first section contains all income items related to that field. These items are usually easy to identify directly to a field, and hold more value as your numbers than as average numbers. Place the number of acres in your field or the total number of cash rented corn acres on the first line.

Enter your expected yield and price on the next lines. There are many factors that affect yield, so using the average from that field is much more meaningful than a statewide average number. If the crop is already priced, that is the best choice for price. If you have not priced your crop, today's price or the price guaranteed by your CRC insurance policy may be logical choices.

You will also want to include the government payments (this would include what we are used to as Direct & Counter Cyclical Payments) from that particular field. Other income, such as LDP's or crop insurance would be entered on the following line.

The Direct Expenses, or those directly associated with the field are often the ones used in budgeting, but some also get overlooked. Table 1 on the next page shows the high and low values for each category, as well as the median number. Knowing the high, low and median for each

Market Report	Yr Ago	4 Wks Ago	7/11/08
<b><u>Livestock and Products,</u></b>			
<b><u>Weekly Average</u></b>			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight.....	\$89.62	\$92.98	\$98.51
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb.....	134.69	130.25	130.65
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb.....	119.01	110.50	117.85
Choice Boxed Beef, 600-750 lb. Carcass.....	142.42	157.03	173.34
Western Corn Belt Base Hog Price Carcass, Negotiated.....	65.91	69.35	73.31
Feeder Pigs, National Direct 50 lbs, FOB.....	51.12	40.97	28.38
Pork Carcass Cutout, 185 lb. Carcass, 51-52% Lean.....	78.89	75.00	80.36
Slaughter Lambs, Ch. & Pr., Heavy, Wooled, South Dakota, Direct.....	103.12	116.25	113.00
National Carcass Lamb Cutout, FOB.....	256.58	267.48	278.99
<b><u>Crops,</u></b>			
<b><u>Daily Spot Prices</u></b>			
Wheat, No. 1, H.W. Imperial, bu.....	5.39	8.54	7.66
Corn, No. 2, Yellow Omaha, bu.....	3.41	7.00	6.34
Soybeans, No. 1, Yellow Omaha, bu.....	8.33	14.55	15.70
Grain Sorghum, No. 2, Yellow Dorchester, cwt.....	5.63	11.77	10.68
Oats, No. 2, Heavy Minneapolis, MN, bu.....	2.83	4.18	4.03
<b><u>Feed</u></b>			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton.....	135.00	195.00	190.00
Alfalfa, Large Rounds, Good Platte Valley, ton.....	92.50	77.50	77.50
Grass Hay, Large Rounds, Premium Nebraska, ton.....	*	*	85.00
Dried Distillers Grains, 10% Moisture, Nebraska Average.....	*	187.25	183.00
Wet Distillers Grains, 65-70% Moisture, Nebraska Average.....	47.00	68.00	68.00
<b>*No Market</b>			

average helps us make better assumptions for your field than just knowing the average. Knowing the seed, fertilizer, chemicals, land rent and even crop insurance cost per acre may be easy, but some of the other expenses are harder to allocate, harder to assume variables, or are just more “unknowns” and make using the average or something close to it a better choice until you are able to keep good enough records to monitor your own expense.

There are many expenses that are included in the Operating Power and Machinery Cost. Items such as fuel, custom hire, machine repairs, supplies and machine leases are included in this number. This allows for better comparison for an operation that has most of the farming done on a custom basis, or rents a lot of machinery, to compare to those who own and operate their own equipment. All equipment operating expenses, with the exception of interest and depreciation would be included here.

Once you have included all your estimated expenses, you are ready to just calculate your net return by following the budget sample. This budget can be continually updated throughout the growing season and when all items are final.

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**Table 1.**

<b>Expense</b>	<b>High</b>	<b>Low</b>	<b>Median</b>	<b>Other Information</b>
Seed	\$72	\$22	\$41.95	
Fertilizer	\$118	\$13	\$63.44	
Chemicals	\$75	\$9	\$27.31	
Crop Insurance	\$41	\$0	\$15.40	
Drying Fuel	\$18	\$0	\$0.00	May be included in general fuel for some farms.
Irrigation Energy	\$71	\$8	\$20.11	May be included in general fuel for some farms.
Repair, Irrigation Equipment	\$41	\$0	\$2.65	May be included in general repairs for some farms.
Operating Power and Machinery	\$193	\$13	\$35.07	
Building Repairs	\$9	\$0	\$0.10	
Hired labor	\$44	\$0	\$4.83	
Utilities	\$23	\$0	\$2.75	
Miscellaneous	\$15	\$0	\$2.05	
Land Rent	\$289	\$57	\$145.90	May include favorable rents from relatives, long-term rents, etc.
Operating Interest	\$38	\$0	\$8.14	
Machinery and Building Depreciation	\$94	\$11	\$40.90	
RE and PP Taxes	\$9	\$0	\$1.51	
Farm Insurance	\$14	\$1	\$3.96	
Interest	\$16	\$0	\$3.64	

## Crop Budget Irrigated Corn on Cash Rented Land

	<u>NFBI Average</u>		<u>Your Estimate</u>
Acres	175.57		
Yield	181.41		
Price/Bu	\$ 3.80	x	
Product Value	\$ 689.36	=	
Government Payments	\$ 25.86	+	
Other Income	\$ 3.19	+	
Gross Income (a)	\$ 718.41	=	
Seed	\$ 47.58		
Fertilizer	\$ 72.21	+	
Chemicals	\$ 29.83	+	
Crop Insurance	\$ 17.80	+	
Drying Fuel	\$ 1.85	+	
Irrigation Energy	\$ 27.24	+	
Repair, Irrigation Equipment	\$ 5.10	+	
Operating Power & Machinery	\$ 61.62	+	
Building Repairs	\$ 1.46	+	
Hired Labor	\$ 12.40	+	
Utilities	\$ 2.44	+	
Miscellaneous	\$ 15.48	+	
Land Rent	\$ 138.39	+	
Operating Interest	\$ 10.84	+	
Direct Expense (b)	\$ 444.24	=	
Return over Direct (a-b)	\$ 274.17		
Machinery & Building Depreciation	\$ 48.78		
RE & PP Taxes	\$ 2.22	+	
Farm Insurance	\$ 5.37	+	
Interest	\$ 4.24	+	
Total Overhead Expense (c)	\$ 60.61	=	
Net Return Per Acre (a-c)	\$ 213.56		
Labor & Management Charge (d)	\$ 27.62		
Net Return (a-c-d)	\$ 185.94		
Profit/Loss Per Bushel	\$ 1.02		
Total Field Profit/Loss	\$ 32,645.13		

\*Average Information is collected from actual financial data from farms across Nebraska by the Nebraska Farm Business, Inc.