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Projecting Cash Needs and Production Costs

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Cornhusker Economics

Cooperative Extension

Institute of Agriculture & Natural Resources
Department of Agricultural Economics
University of Nebraska – Lincoln

Projecting Cash Needs and Production Costs

Market Report	Yr Ago	4 Wks Ago	11/10/00
Livestock and Products,			
Average Prices for Week Ending			
Slaughter Steers, Ch. 204, 1100-1300 lb Omaha, cwt.	\$69.56	\$67.43	\$71.34
Feeder Steers, Med. Frame, 600-650 lb Dodge City, KS, cwt.	82.00	88.83	89.62
Feeder Steers, Med. Frame 600-650 lb, Nebraska Auction Wght. Avg.	89.04	99.07	95.06
Carcass Price, Ch. 1-3, 550-700 lb Cent. US, Equiv. Index Value, cwt.	106.96	103.92	107.97
Hogs, US 1-2, 220-230 lb Sioux Falls, SD, cwt.	36.50	45.00	36.00
Feeder Pigs, US 1-2, 40-45 lb Sioux Falls, SD, hd.	33.50	34.00	25.39
Vacuum Packed Pork Loins, Wholesale, 13-19 lb, 1/4" Trim, Cent. US, cwt.	93.25	120.60	102.40
Slaughter Lambs, Ch. & Pr., 115-125 lb Sioux Falls, SD, cwt.	77.00	65.25	61.75
Carcass Lambs, Ch. & Pr., 1-4, 55-65 lb FOB Midwest, cwt.	157.00	153.00	149.00
Crops,			
Cash Truck Prices for Date Shown			
Wheat, No. 1, H.W. Omaha, bu.	2.83	3.16	3.15
Corn, No. 2, Yellow Omaha, bu.	1.69	1.80	1.95
Soybeans, No. 1, Yellow Omaha, bu.	4.24	4.38	4.50
Grain Sorghum, No. 2, Yellow Kansas City, cwt.	2.73	3.09	3.43
Oats, No. 2, Heavy Sioux City, IA, bu.	1.18	1.25	1.21
Hay,			
First Day of Week Pile Prices			
Alfalfa, Sm. Square, RFV 150 or better Platte Valley, ton.	82.50	115.00	115.00
Alfalfa, Lg. Round, Good Northeast Nebraska, ton.	32.50	67.50	75.00
Prairie, Sm. Square, Good Northeast Nebraska, ton.	*	82.50	82.50
* No market.			

Some producers suggest they prepare a cash flow if needed for their lender, but otherwise find the projection too dependent upon unknowns to be useful. Earlier newsletters have suggested using projected cash flow commitments to determine the level of crop insurance coverage. Much of the information required to prepare a cash flow projection can also be used to prepare a projected return over variable costs (gross margin) for individual enterprises. Gross margins can be used to project, for example, which crops will be most profitable.

In the November 11, 1998 newsletter it was illustrated how prioritizing cash flow commitments could be helpful in determining the minimum revenue required to avoid disrupting the business, i.e., to avoid selling production assets or refinancing at an inopportune time. Subsidies will be increased in 2001 for multi-peril crop insurance, making higher coverage levels increasingly affordable. It may seem strange to use crop insurance to manage risk for the entire farm operation. However, the heavily subsidized rates for Crop Revenue Coverage may make it feasible and affordable to select a coverage level that guarantees sufficient revenue to cover, for example, debt payments and projected cash costs for the crop and livestock enterprises. Multiply the APH times the acreage, times the coverage level for cash insurance unit and total, to arrive at bushels. Multiply total bushels times the price to determine total dollar coverage. The price levels for CRC coverage for spring crops will not be announced until next March. CRC coverage for corn is based on the February average of the DEC corn futures, and the current DEC



corn quote can be used for an early estimate. An insurance agent can provide a premium estimate based on the projected price.

A good cash flow projection will require estimating the seed, fertilizer, chemicals, fuel and custom services for each crop. These costs are likely to vary between crops and they represent much of the impact switching from one crop to another will have upon total costs. The *Nebraska Crop Budgets* available through each of the University of Nebraska Cooperative Extension offices, are designed to be used in estimating production costs. The 2001 edition of the crop budgets will have one major change that is intended to make the budgets more useful in estimating production costs. In recent years depreciation costs have been provided for all of the equipment required in growing each crop, but depreciation costs were not broken down between operations. The 1999 edition of the *Nebraska Crop Budgets* included separate tables for per acre depreciation estimates for some machinery combinations. The 2001 edition will provide depreciation estimates by operation in each budget and, in addition, a table will be provided that shows ownership and operating cost estimates for several sizes of equipment.

The importance of providing assistance in estimating depreciation cost by operation became evident when comparing our budgeted costs to the record summaries compiled by the Nebraska Farm Business Association. The Farm Business Association depreciation costs are generally lower than our budgeted costs. Some of this difference may be due to differences in the years to trade. However, our budgets report estimated machinery depreciation costs in today's dollars. Farm records report tax depreciation which is expressed in dollars of the year in which the item was purchased, i.e., not adjusted for inflation. Also depreciation reported in farm records reflect the tax procedures used. The longer it has been since a producer has replaced equipment, the smaller the amount of depreciation that will be reported in the current year.

A more accurate estimate of depreciation costs could be determined by averaging depreciation costs over several years, but the problem remains that the depreciation for each machine is represented in dollars of the year each was purchased. If depreciation costs

are not represented in current dollars, the cost recovery will not be sufficient to purchase replacement equipment. Also, a crop enterprise that requires more machinery services will not be charged for those services in today's dollars, while all other resources it uses will be charged against it in today's dollars. One solution would be to keep two separate depreciation schedules, one for the IRS and another for cost of production estimates.

Another alternative is to use the machinery cost estimates in the *Nebraska Crop Budgets* which are expressed in current dollars. The reasoning underlying the effort to include most depreciation as a variable cost in decision making is that the service life in hours or acres is partly used up each trip over the field. A well probably depreciates at an annual rate regardless of the water drawn from it. Therefore, changes in tillage systems and crops grown that change the number of hours or acres of annual use will change the remaining service available from that machine.

The limitation of using depreciation cost estimates from farm record summaries does not diminish the usefulness of the farm record cost information for other categories of costs. Each year the Nebraska Farm Business Association prepares a summary of enterprise costs for several of the major crop and livestock enterprises, including a high profit and low profit 1/3 for comparison. Copies can be requested through a University of Nebraska Cooperative Extension office.

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Have A Great Holiday!!!