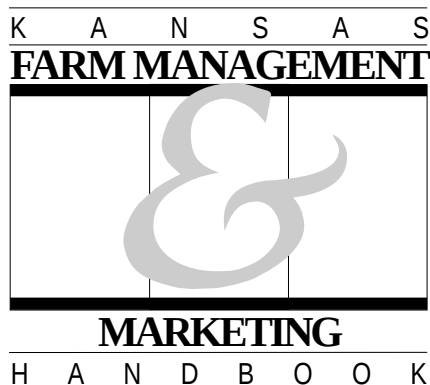




Cotton Production in Central Kansas

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Cost-Return Projections

The cost-return projection estimates the cost of producing dryland cotton in central Kansas. Its purpose is to provide estimated costs and returns for forward farm planning. Production costs for individual farmers will vary considerably due to the amounts of fertilizer and chemicals applied, the type and amount of farm machinery owned, and land costs. Producers with cotton production history and farm program base acres may qualify for deficiency payments. None are shown on this budget guide.

Yield Levels

Cost per cwt. and net returns in crop production are highly dependent on yields. The following estimated budget includes three different yield levels. Yield levels vary for a number of reasons such as soil type/land quality, weather, input levels, and management. The three yield levels included in this estimated budget reflect yield variability due to input levels and management as opposed to land quality since land values are held constant. Budgeting at multiple yield levels can help producers examine the financial risk of a crop enterprise that is directly related to production risk.

Stripping and ginning expenses are based upon production levels. Revenue from sales of cottonseed is included in this budget. Cotton gins often keep the cottonseed, giving the producer credit for the market value of this coproduct by charging a smaller per pound ginning fee. In some years, the cottonseed market value is sufficient to pay all ginning expenses.

Variable and Fixed Costs

Variable costs are costs that vary with level of production such as fertilizer, repairs, and fuel-oil. Labor requirements include time for management and marketing, whether operator or hired labor. Interest on variable costs is estimated by using one-half of the accumulated variable costs for the year.

Fixed costs do not vary by level of production, and are incurred by virtue of owning assets such as land and machinery. If the land is rented, use line 17 in lieu of lines 15 and 16.

The original cost of machinery was based on the estimated value of tractors, tillage equipment and planters for average size farms. Harvesting equipment is custom hired. Interest on machinery was estimated on one-half of the original cost of machinery.

Profit and Return Factors

Net return on investment is the percentage return on investment. This measure enables comparisons to be made between other enterprises as well as other investment alternatives. Asset turnover is the percentage of investment recovered by total returns. Inverting this measure allows different enterprises to be compared on the basis of capital required to generate a dollar of gross income.

Table 1. Factors Used for Cost-Return Budget

Item	Yield Level (lint/seed, lb)			
	300/525	400/700	500/875	
Fertilizer:				
N (Anhy.)	45	45	60	\$0.19/lb
N (Dry)	0	0	0	\$0.29/lb
P	25	25	25	\$0.27/lb
K	0	0	0	\$0.13/lb
Lime	500	500	500	\$0.01/lb
Seed, lbs	12.00	12.00	12.00	
Seed price, \$/lb	\$0.75	\$0.75	\$0.75	
Labor Hours	2.00	2.00	2.00	
Labor Price/Hour				\$9.00
Land Value/Acre				\$630.00
Land Interest Rate				6.00%
Machinery Investment				\$210.00
Machinery Life				10 yrs
Salvage value				35.00%
Interest Rate on Machinery				10.00%
Insurance Rate on Machinery				0.25%
Interest Rate on Variable Costs				10.00%

COST-RETURN PROJECTION—COTTON PRODUCTION—CENTRAL KANSAS

	Yield Level (lint/seed, lb)			Your Farm
	300/525	400/700	500/875	
VARIABLE COSTS PER ACRE:				
1. Labor (2.0 hrs × \$9.00/hr)	\$18.00	\$18.00	\$18.00	
2. Seed (12 lbs × \$.75/lb)	9.00	9.00	9.00	
3. Herbicide (\$16.75) and Insecticide	16.75	16.75	16.75	
4. Fertilizer and Lime	17.80	17.80	20.65	
5. Fuel and Oil	10.00	10.00	10.00	
6. Stripping and Ginning	75.38	100.50	125.63	
7. Machinery & Equipment Repairs	12.50	12.50	12.50	
8. Trucking to Gin	13.50	18.00	22.50	
9. Crop Insurance				
10. Drying				
11. Custom Hire				
12. Crop Consulting				
13. Miscellaneous	15.00	15.00	15.00	
14. Interest on 1/2 Variable Costs @ 10%	9.40	10.88	12.50	
A. TOTAL VARIABLE COSTS	\$197.32	\$228.43	\$262.53	
FIXED COSTS PER ACRE:				
15. Real Estate Taxes @ .5%	\$3.15	\$3.15	\$3.15	
16. Interest on Land (\$630/A × 6%) ¹	37.80	37.80	37.80	
17. Rent for Rented Land				
18. Depreciation on Crop Machinery	13.65	13.65	13.65	
19. Interest on Crop Machinery ² @ 10%	14.18	14.18	14.18	
20.				
21.				
22. Insurance on Machinery @ .25%	0.53	0.53	0.53	
B. TOTAL FIXED COSTS	\$69.30	\$69.30	\$69.30	
C. TOTAL COSTS (A + B)	\$266.62	\$297.73	\$331.83	
D. YIELD PER ACRE: Lint cotton	300	400	500	
Seed	525	700	875	
E. PRICE PER POUND: Lint cotton	\$0.70	\$0.70	\$0.70	
Seed	\$0.055	\$0.055	\$0.055	
F. NET GOVERNMENT PAYMENT ³				
G. RETURNS PER ACRE ((D × E) + F)	\$238.88	\$318.50	\$398.13	
H. RETURNS OVER VARIABLE COSTS (G-A)	\$41.55	\$90.07	\$135.60	
I. RETURNS OVER TOTAL COSTS (G-C)	\$ -27.75	\$20.77	\$66.30	
J. VARIABLE COSTS PER CWT (A ÷ D)	\$65.77	\$57.11	\$52.51	
K. FIXED COSTS PER CWT(B ÷ D)	\$23.10	\$17.33	\$13.86	
L. TOTAL COSTS PER CWT (C ÷ D)	\$88.87	\$74.43	\$66.37	
M. ASSET TURNOVER (G ÷ INVESTMENT) ⁴	28.44%	37.92%	47.40%	
N. NET RETURN ON INVESTMENT ((I+14+16+19) ÷ INVESTMENT) ⁴	4.00%	9.96%	15.57%	

¹Assumes interest rate shown in Table 1.²Assumes one-half the (original cost plus salvage value) at the interest rate shown in Table 1.³Net government payment equals yield per acre (D) times expected deficiency payment minus prorated cost of set-aside acres. Based on 15% flex acres and 5% ARP. The price used was a five-year average price. The twelve month national average price for the crop year. The 1995 farm program may have major changes.⁴Investment equals total value of all fixed assets shown in Table 1.**COOPERATIVE EXTENSION SERVICE, MANHATTAN, KANSAS**

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