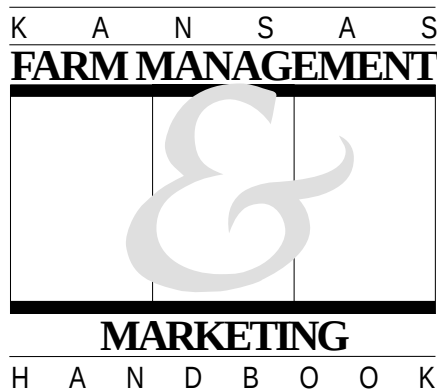




Wheat Cost-Return Budget (W-S-F Rotation) in Western Kansas

Department of Agricultural Economics



Kansas State University Agricultural Experiment Station and Cooperative Extension Service

Daniel M. O'Brien

Extension Agricultural Economist, NW

Troy J. Dumler

Extension Agricultural Economist, SW

Because of increased planting flexibility available to farmers through the 1996 Federal Agricultural Improvement and Reform Act and the incentive to increase profitability of nonirrigated crop enterprises, many Western Kansas crop producers are switching from traditional wheat-fallow rotations to more intensive wheat-summer crop-fallow rotations. The goal of farmers using these more intensive rotations is to increase crop production and income through effective soil moisture conservation and utilization. The primary spring crops to be considered in this rotation and their associated KSU Management Guides are as follows: grain sorghum (MF-904), corn (MF-2150), oil-type sunflowers (MF-887), confectionary sunflowers (MF-937), cane hay (MF-997), and soybeans (MF-2366).

Expected Yields

Crop production costs per unit and net returns are highly dependent on yields. The following estimated budget includes three different yield levels, which are intended to represent expected yields for land of varying quality for a given level of management. Alternative expected yields can help producers compare the profitability of crop enterprises on farmland tracts with varying yield potentials. Land values and government payments have been adjusted for alternative yield levels in this budget. In customizing this budget to your farm, attention should be given to using land values representative of your farm's productive capacity.

Crop insurance was not included as an input expense in this budget because yields reflect an average of all years (good and bad). If crop insurance is included as an input expense, than an expected value for indemnity payments should be included in the returns section. Historically, MPCI indemnity payments have exceeded premiums due to government subsidies.

Variable and Fixed Costs, Return Factors

Variable costs such as fertilizer, repairs, and fuel-oil may vary with the level of production. The cost columns show the interest on the variable costs (Lines 1 through 15) for one-half year. Fixed costs do not vary with level of production and are incurred by virtue of owning assets such as land and machinery. Projections of net percentage return on investment permit comparisons to be made among alternative enterprises or other investments.

Table 1. Factors Used for Cost-Return Budget

Item	Yield Level (bu)			
	30	38	47	
N (Anhy.)	39	50	62	\$0.15/lb
N (Dry)	13	17	21	\$0.24/lb
P	17	21	26	\$0.18/lb
K	0	0	0	\$0.14/lb
Lime	0	0	0	\$0.01/lb
Seed, lbs.	60	70	80	
Seed price, \$/lb.	\$0.076	\$0.076	\$0.076	
Labor hours	1.07	1.10	1.13	
Labor price/hour				\$10.80
Land value/acre*	\$398	\$498	\$598	
Land interest rate				6.00%
Land real estate tax rate				0.50%
Machinery investment**				\$190
Machinery life				10 yrs
Salvage value				35%
Interest rate on machinery				10.00%
Insurance rate on machinery				0.25%
Interest on variable costs				10.00%

*All land costs were computed and then multiplied by a factor of 1.5 to account for fallow land.

**Investment required per crop and fallow acres.

COST-RETURN PROJECTION—WHEAT (W-S-F ROTATION)—WESTERN KANSAS

	Yield Level (bu)			Your Farm
	30	38	47	
VARIABLE COSTS PER ACRE: ¹				
1. Labor	\$ 11.51	\$ 11.88	\$ 12.25	
2. Seed	4.56	5.32	6.08	
3. Herbicide	15.01	15.01	15.01	
4. Insecticide				
5. Fertilizer and Lime	12.03	15.36	19.02	
6. Fuel and Oil	8.77	9.05	9.33	
7.				
8. Machinery and Equipment Repairs	11.58	11.95	12.32	
9.				
10. Crop Insurance				
11. Drying				
12. Custom Hire				
13. Crop Consulting				
14. Miscellaneous	5.00	5.00	5.00	
15. Interest on 1/2 Variable Costs	3.42	3.68	3.95	
A. TOTAL VARIABLE COSTS	\$ 71.88	\$ 77.25	\$ 82.96	
FIXED COSTS PER ACRE: ¹				
16. Real Estate Taxes	2.99	3.74	4.49	
17 Interest on Land ²	35.82	44.82	53.82	
18. Rent for Rented Land				
19. Depreciation on Crop Machinery	12.35	12.35	12.35	
20. Interest on Crop Machinery ³	12.83	12.83	12.83	
21.				
22.				
23. Insurance on Machinery	0.48	0.48	0.48	
B. TOTAL FIXED COSTS	\$ 64.46	\$ 74.21	\$ 83.96	
C. TOTAL COSTS (A + B)	\$ 136.34	\$151.45	\$ 166.91	
D. YIELD PER ACRE	30	38	47	
E. PRICE PER BUSHEL ⁴	\$ 2.91	\$ 2.91	\$ 2.91	
F. NET GOVERNMENT PAYMENT ⁴	\$ 8.67	\$ 9.42	\$ 10.17	
G. INDEMNITY PAYMENTS	\$	\$	\$	
H. MISCELLANEOUS INCOME	\$	\$	\$	
I. RETURNS PER ACRE [(D × E) + F + G + H]	\$ 95.97	\$120.00	\$ 146.94	
J. RETURNS OVER VARIABLE COSTS (I – A)	\$ 24.09	\$ 42.75	\$ 63.98	
K. RETURNS OVER TOTAL COSTS (I – C)	\$ -40.37	\$ -31.45	\$ -19.97	
L. VARIABLE COSTS PER BUSHEL (A ÷ D)	\$ 2.40	\$ 2.03	\$ 1.77	
M. TOTAL COSTS PER BUSHEL (C ÷ D)	\$ 4.54	\$ 3.99	\$ 3.55	
N. NET RETURN ON INVESTMENT				
[(K+15+17+20) ÷ INVESTMENT] ⁵	1.49%	3.19%	4.66%	

¹Totals were derived using information listed in Table 1. ²Assumes interest rate shown in Table 1. ³Assumes one-half the average investment [(initial investment + salvage value) ÷ 2] at the interest rate shown in Table 1. ⁴See MF-1013 "Prices for Crop and Livestock Cost-Return Budgets" and MF-2236 "Government Program Payments for Crop Cost Return Budgets" for additional information on crop prices and program payments. ⁵Investment equals total value of all fixed assets shown in Table 1.

Publications from Kansas State University are available on the World Wide Web at: <http://www.oznet.ksu.edu>

Contents of this publication may be freely reproduced for educational purposes. All other rights reserved. In each case, credit Daniel M. O'Brien and Troy J. Dumler, *Wheat Cost-Return Budget (W-S-F Rotation) in Western Kansas*, Kansas State University, October 2000.

Kansas State University Agricultural Experiment Station and Cooperative Extension Service

MF-903

October 2000

It is the policy of Kansas State University Agricultural Experiment Station and Cooperative Extension Service that all persons shall have equal opportunity and access to its educational programs, services, activities, and materials without regard to race, color, religion, national origin, sex, age or disability. Kansas State University is an equal opportunity organization. Issued in furtherance of Cooperative Extension Work, Acts of May 8 and June 30, 1914, as amended. Kansas State University, County Extension Councils, Extension Districts, and United States Department of Agriculture Cooperating, Marc A. Johnson, Director.

File code: Farm Management 3-1