



Wheat

Cost-Return Budget

in South Central Kansas

Department of Agricultural Economics



Kansas State University Agricultural Experiment Station and Cooperative Extension Service

Gerald W. Warmann

Extension Agricultural Economist, SC

Cost-Return Projections

Cost-return projections provide estimated costs and returns for forward farm planning. They are crop and region-of-Kansas specific. 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.

Yield Level

Cost per bushel and net returns in crop production are highly dependent on yields. The following estimated budget includes three different yield levels. The three yield levels are intended to represent expected yields of varying land quality for a given level of management. Land values, government payments, and various inputs vary as yield levels vary. Crop insurance was not included in the budget as an input expense because yields reflect an average of all years (good and bad). If crop insurance is included as an input expense, then 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

Table 1 shows some of the assumptions used to develop this budget. Note the lime amount assumes that 1 ton of ECC is applied every 4 years. See MF-942, *Cost-Return Budgets—Nonirrigated Crops*, for herbicide and insecticide usage.

Variable costs, such as labor, fertilizer, repairs, and fuel-oil, are costs that vary with the level of production. 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 with the level of production and are incurred by virtue of owning assets such as land and machinery. Machinery investment was estimated for an average-sized farm to meet tillage, planting, and harvest requirements. Salvage value of machinery was assumed to be 35 percent of the initial investment. Interest on machinery

was calculated on one-half the average investment [(initial investment + salvage value)÷2]. Land costs are based on owned land. If the land is cash rented, the cost of rent per acre should be listed on line 18 and no taxes or interest shown on lines 16 and 17. If land is rented on a cropshare basis, rent is reflected in the yield.

Profit and Return Factors

Net return on investment is the percentage return on investment. This measure enables comparisons to be made among other enterprises and investment alternatives. If the land market is efficient, the return on investment for land of varying qualities should be approximately equal. If the return on investment from lower quality land is low relative to the returns on investment from land of higher quality, it is a signal that the land is overpriced relative to better quality land.

Table 1. Factors Used for Cost-Return Budget

Item	Yield Level (bu)			
	30	35	50	
Fertilizer:				
N (Anhy.)	40	50	65	\$0.15/lb
N (Dry)	0	0	0	\$0.23/lb
P	20	20	20	\$0.27/lb
K	0	0	0	\$0.14/lb
Lime	500	500	500	\$0.0045/lb
Seed, lbs	50	60	80	
Seed price, \$/lb	\$0.096	\$0.096	\$0.096	
Labor hours	1.70	1.80	1.90	
Labor price/hour				\$10.80
Land value/acre	\$575	\$720	\$865	
Land interest rate				6.00%
Land real estate tax rate				0.50%
Machinery investment				\$225
Machinery life				10 yrs
Salvage value				35.00%
Interest rate on machinery				10.00%
Insurance rate on machinery				0.25%
Interest on variable costs				10.00%

COST-RETURN PROJECTION — WHEAT — SOUTH CENTRAL KANSAS

	Yield Level (bu)			Your Farm
	30	35	50	
VARIABLE COSTS PER ACRE: ¹				
1. Labor	\$ 18.36	\$ 19.44	\$ 20.52	
2. Seed	4.80	5.76	7.68	
3. Herbicide	9.58	9.58	9.58	
4. Insecticide				
5. Fertilizer and Lime	13.65	15.15	17.40	
6. Fuel and Oil	5.61	6.00	6.39	
7.				
8. Machinery and Equipment Repairs	12.86	13.75	14.64	
9.				
10. Crop Insurance				
11. Drying				
12. Custom Hire				
13. Crop Consulting				
14. Miscellaneous	7.00	7.00	7.00	
15. Interest on 1/2 Variable Costs	3.59	3.83	4.16	
A. TOTAL VARIABLE COSTS	\$ 75.45	\$ 80.51	\$ 87.37	
FIXED COSTS PER ACRE: ¹				
16. Real Estate Taxes	2.88	3.60	4.33	
17 Interest on Land ²	34.50	43.20	51.90	
18. Rent for Rented Land				
19. Depreciation on Crop Machinery	14.63	14.63	14.63	
20. Interest on Crop Machinery ³	15.19	15.19	15.19	
21.				
22.				
23. Insurance on Machinery	0.56	0.56	0.56	
B. TOTAL FIXED COSTS	\$ 67.75	\$ 77.18	\$ 86.60	
C. TOTAL COSTS (A + B)	\$ 143.20	\$ 157.69	\$ 173.97	
D. YIELD PER ACRE	30	35	50	
E. PRICE PER BUSHEL ⁴	\$ 3.02	\$ 3.02	\$ 3.02	
F. NET GOVERNMENT PAYMENT ⁴	\$ 13.16	\$ 14.30	\$ 15.44	
G. INDEMNITY PAYMENTS	\$	\$	\$	
H. MISCELLANEOUS INCOME	\$	\$	\$	
I. RETURNS PER ACRE [(D × E) + F + G + H]	\$ 103.76	\$ 120.00	\$ 166.44	
J. RETURNS OVER VARIABLE COSTS (I – A)	\$ 28.31	\$ 39.49	\$ 79.07	
K. RETURNS OVER TOTAL COSTS (I – C)	\$ –39.44	\$ –37.69	\$ –7.53	
L. VARIABLE COSTS PER BUSHEL (A ÷ D)	\$ 2.51	\$ 2.30	\$ 1.75	
M. TOTAL COSTS PER BUSHEL (C ÷ D)	\$ 4.77	\$ 4.51	\$ 3.48	
N. NET RETURN ON INVESTMENT				
[(K+15+17+20) ÷ INVESTMENT] ⁵	1.73%	2.60%	5.85%	

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 Gerald W. Warmann, *Wheat Cost-Return Budget in South Central Kansas*, Kansas State University, October 1998.

Kansas State University Agricultural Experiment Station and Cooperative Extension Service

MF-574

October 1998

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