

WHEAT BUDGET

I. INCOME

Total Income

II. VARIABLE COSTS

Preharvest

Harvest

Total Variable Costs

Income above VC

III. FIXED COSTS

Total Fixed Costs

Total Costs

Net Return

II. Rather than developing an enterprise budget from scratch, it is often easier to begin with one developed by your State Cooperative Extension Service or some other source and modify it to fit your individual situation. Assume you are currently farming and have been given the opportunity to rent an adjoining 300 acres where you would grow only corn. You would like to know if it would be profitable to rent this land. To help with your decision, you have acquired the attached enterprise budget for corn but feel you must make the following changes for the budget to fit your situation. Use the right-hand column to calculate your modified corn enterprise budget. (If no change, use budget value.)

1. Corn price is expected to be \$2.40 per bu. but you expect 95 bu. per acre. (Note yield change affects hauling costs.
2. Seed price is now \$1.75 per pound.
3. You can now buy fertilizer for \$0.14 per pound. Application cost is the same.
4. Herbicide is now \$2.25 per pound.
5. Tractor & machinery variable costs should be 25% higher than budget values.
6. You would like to make \$10.00 per hour for your labor and your big machinery should reduce labor needs to 1.8 hours per acre.
7. Opportunity cost of your capital is 10%.
8. Machinery and tractor fixed costs should be only 85% of budget values.
9. You can rent the land for \$42.00 per acre.
10. Custom combine now costs \$22.50 per acre.

QUESTIONS

1. Would you rent the land for \$42.00 per acre? Why?
2. If the price of corn turns out to be \$2.00 per bu., what yield would be necessary to just cover all costs including your labor cost. (Ignore the change in hauling cost.)
3. What is the maximum cash rent you could pay for this land (i.e. what cash rent would just make this a breakeven deal, i. e., no profit?
4. If you would be willing to receive only \$6.00 per hour for your labor, what is the maximum cash rent you could pay and earn the \$6.00 per hour?

CORN

	<u>Price or Cost Per Unit</u>	<u>Quantity</u>	<u>Value or Cost</u>	<u>Your Figures</u>
1. GROSS RECEIPTS				
CORN	\$2.25	85.0 bu.	\$191.25	
2. VARIABLE COSTS				
Preharvest				
Seed	\$1.25	13.0 lbs.	\$16.25	
Fertilizer (N)	0.16	100.0 lbs.	16.00	
Fertilizer application	3.00	1.0 acre	3.00	
Herbicide	2.00	4.0 lbs.	8.00	
Machinery	6.00	1.0 acre	6.00	
Tractors	10.40	1.0 acre	10.40	
Labor	6.00	2.1 hrs.	12.60	
Interest on V.C. (for 6 months)	12%	72.25	<u>4.34</u>	
Subtotal			\$76.59	
Harvest Costs				
Custom combine	20.00	1.0 acre	20.00	
Custom haul	0.15	85.0 bu.	<u>12.75</u>	
Subtotal			\$32.75	
Total Variable Cost			\$109.34	
3. INCOME ABOVE VARIABLE COST				
			\$81.91	
4. FIXED COSTS				
Machinery	8.20	1.0 acre	8.20	
Tractors	16.00	1.0 acre	16.00	
Land	45.00	1.0 acre	<u>45.00</u>	
Total Fixed Costs			\$69.20	
5. TOTAL COSTS				
			178.54	
6. NET RETURNS				
			\$12.71	