

Planning to make money on the 2007 crop

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Last year we developed an income projection worksheet for the various crop scenarios and gave copies to anyone who wanted one. We got tremendous feedback from farmers, ag lenders, and ag consultants using the software that pointed out all kinds of things we had never thought about. And although the worksheet was very simple and had to be tweaked for all the nuances, it was dead right about one thing. It pointed out it was going to be very difficult to make money growing cotton, and looking at year end financials, the worksheet did not lie. Quoting

Rudi Keller from an article published in the Southeast Missourian on Friday, Nov. 10, 2006, "Cotton is just a dead animal. The only good thing about cotton right now is we have had some better crops in the past two or three years. But it costs more to grow and it requires more specialized machinery."

For example, one of our cotton models for the 2007 crop year shows it will cost \$754.51 per acre to grow cotton. The \$754.51 includes \$492.25 direct cost, \$30.00 indirect cost, \$132.26 equipment costs, and \$100.00 land cost. Even though the target price is 72.4 cents, the target price is not paid on total production and there are penalties for lower grades. You might expect to get 63 cents for your cotton inclusive of your government payment. If you are farming 1,000 acres and your production is 1,000

pounds per acre your gross income will be \$630,000 and your expenses \$754,510 for a loss of \$124,510. And this cost is assuming a normal year; not one like last year. Additional costs associated with the drought might cost you \$150 an acre, which would bring your loss to \$274,510. Using 54.5 cents as market price for cotton it would take an additional 504 pounds of cotton to break even under this scenario. That would be a 1,504 pound yield to break even. If you need to borrow a screwdriver to take the cotton tag off the front of your truck I have one available.

The most often heard reason for continuing with cotton is the loss that would be incurred in disposing of cotton pickers and gin stock. In a lot of cases you would be better off incurring the loss on disposal and getting into crops where you can make money, or at least parking

the cotton picker under the shed and continuing to make payments on it until the price of cotton improves.

With the improvement in grain prices, soybeans, corn and rice all look like good alternatives to cotton for the 2007 crop year. On most grain scenarios you can make a profit if you lock in today's prices. Quoting Melvin Brees of the Food and Agricultural Policy Research Institute at the University of Missouri, "Trying to forecast a market top before it occurs has been described as a fool's game!" If you can lock in prices that will keep you in farming for the next couple of years then I would recommend booking. **DBJ**

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