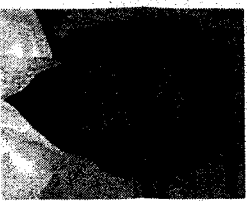


How much equipment can I afford?

BY DON STALLINGS, CPA, CMA, CFFA
DBJ Contributing Writer

The best ideas come from listening to farmers and from the questions they ask. Recently a farmer called to ask me if his



farm was a three tractor farm or a four tractor farm. A smile came over my face and it was tempting to ask him if he was referring to garden tractors or real tractors. But since he posed the question seriously, I resisted the temptation to kid him. His question concerning number of tractors was an interesting one and I liked the fact that he was visualizing how many tractors he would need. This visualization technique is used widely by Olympic divers and is very helpful in optimizing planning decisions. While the visualization of how many and what kind of equipment you need is an important planning tool, let me

offer a more comprehensive approach.

As you know, equipment is at best an intermediate term decision and sometimes a long term decision. It's best to look at overall equipment needs vs. just a tractor need, so let me suggest you make out a 5-10 year equipment budget projection. This can easily be accomplished using a spreadsheet program on your computer. Use your visualization method to list down all your equipment needs piece by piece and list them on the spreadsheet. Then, put an acquisition cost on each piece based on size, new, used, etc. From this, you can see your investment in equipment can vary widely depending on the type of equipment you chose. Next, list down the debt service associated with the acquisition of each piece of equipment as well as estimated repair costs. Some would leave the repair costs out of the equation; however, I think it is an important factor in deciding between new and used equipment. Once you get your debt service and repair cost projections for the 5-10 year period you

are in a position to make an informed decision on whether you can afford any more equipment or not.

When I first considered this decision I thought crop mix between soybeans and rice would make a difference, but when I ran the MS State software I found that not to be as big a difference. I looked at the MS State equipment costs estimates on two different scenarios. One was a 1 in 3 cropping rotation and the other was a 1 in 6 cropping rotation. From the MS State information, the total cash outlay would be \$231,875 on the 1 in 6 rotation and \$239,410 on the 1 in 3 rotation. Under current marketing/cost projections, this would favor a higher mix of rice. It appears equipment costs are not a big factor in making a rice/soybean decision; however, I believe storage capacity would. For that reason, you might want to include storage costs in the overall equipment budget consideration.

If the projected cash flow on your MS State budget you might consider a

mix of third party custom work and equipment ownership to keep your cash outlay within the suggested budget. If you are fortunate enough to have a neighbor you can work well with, you might consider purchasing equipment together to keep costs within your budget. Not all equipment would need to be shared but an extra tractor or combine would be something that could easily be shared.

If you would like a free copy of our crop planning software which includes equipment costs, give me a call at (662) 887-4557 or e-mail me at dstallings@bairdandstallings.com. Prepare your plan, stick to your plan, and make money in 2009. **DBJ**

(Don Stallings is a shareholder in the Indianapolis, Ms. accounting firm, Baird & Stallings, CPAs, P.A. He is a certified public accountant, a certified valuation analyst, and a certified forensic financial analyst.)