

Making money on your 2008 crop

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In the last couple of months I have had several calls concerning what crops to plant in 2008. Several clients who have cotton pickers parked under the shed have asked me should they reconsider cotton.



Based on our 2008 income projection worksheets it appears soybeans and rice will be the best alternatives for 2008 on irrigated fields and early soybeans or milo the best alternatives for non-irrigated fields.

For example, one of our cotton models for the 2008 crop year shows it will cost \$818.29 per acre to grow cotton. The \$818.29 includes \$549.91 direct costs, \$35.00 indirect costs, \$133.38 equipment costs, and \$100.00 land costs. We show gross income of \$789 per acre which includes \$29 per acre rebates and \$40 per acre government payment. It is doubtful that the rebates will be that high. It just depends on what the gins and compresses

can afford to pay with a low volume year. No one is sure what kind of government payment we can expect for 2008. It will take some time working through the new rules to determine that. We used 60 cents per pound net to the farmer and a 1,200 pound yield. On our mythical 1,000 acre cotton farm we would lose \$29,293 for the year under these assumptions.

Contrast that with our mythical 1,000 acre soybean farm using 60 bushel per acre yields and \$8 per bushel soybeans where we show a net profit of \$154,789, our mythical 1,000 acre rice farm using 160 bushel yields at \$4.75 per bushel where we show a net profit of \$123,424, or our mythical 1,000 acre milo farm using 85 bushel yields and \$3.25 per bushel where we show a net profit of \$12,823. Yes it is possible that cotton will go to 75 cents per pound and you could have a 1,500 pound per acre yield, but you will have more than twice the money in the field at risk and a hurricane could easily wipe out any profit even with that kind of yield and price. From a total risk standpoint, cotton just doesn't make sense.

Most people shut down when con-

fronted with a lot of uncertainty. With the new farm bill, volatile markets, and weak grain basis a lot of farmers are deferring decisions until things clarify themselves. Why not go ahead and book grain prices right now? You might want to use a hedge to arrive contract if you believe the basis will improve and based on historical basis this should be the case. With your gross income nailed down you have eliminated a lot of risk. Soybeans may go to \$12, but you should still make a handsome profit at \$8 a bushel. Just remember; hogs go to market, pigs get fed.

Once you have nailed down selling price concentrate on your expenses. Seed, chemicals, fertilizer and diesel fuel are some of the key inputs you should nail down a price through booking or prepayment anytime you see these prices go below your budgeted amounts. Prepayment of diesel fuel and fertilizer this time last year would have more than covered interest cost associated with the prepayment. Most banks I have spoken with are willing to advance crop expenses under these circumstances. Wouldn't it be nice to go to deer camp knowing you had already sold your 2008 crop at a good

price and nailed down your major expenses with prepayments? That way you could concentrate your worry on the weather and how much money your wife is going to spend on Christmas when she finds out how much money you will be making next year.

I will repeat a few thoughts I have shared with you before. If you want tomorrow to look like today, then do the same thing tomorrow you did today. If you cannot pencil a profit on paper it is highly unlikely you will be able to make a profit. Planning is the key to making money in any business and farming is more of a business today than it has ever been.

If you would like a free copy of our crop planning software 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 2008. **DBJ**

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