FARM BUSINESS NOTES

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Credit Practices and Credit Costs of Cooperative Oil Associations[1]

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The extension of credit to patrons for supplies purchased involves knotty problems for cooperative associations. A survey of the credit practices of 85 cooperative oil associations from all parts of the state has been made recently to obtain further information on this subject.

During 1940 these 85 associations sold $8,179,034 of petroleum products and other farm supplies, or an average of $96,224 per association. Of these sales $4,460,155, or 54.5 per cent, were credit sales. The proportion of sales on credit varied widely from association to association, being 85 per cent of the sales in one association, while another operated on a strictly cash basis.

There is wide variation in the volume of credit from season to season. As shown by the first two columns of table 1, the monthly sales of these associations reached their highest level in May when they were about $841,822, or 24 per cent above the monthly average for the year.

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Table 1. **Monthly Sales, Credit Sales, and Accounts Receivable of 85 Minnesota Cooperative Oil Associations, 1940**

Month	Total Sales Dollars	Total Sales Index*	Credit Sales Dollars	Credit Sales Index	Accounts Receivable Dollars	Accounts Receivable Index
January	$507,271	74	$258,222	69	$ 595,817	73
February	447,258	66	216,478	58	552,637	68
March	520,891	76	250,924	67	566,749	70
April	839,777	123	456,619	123	699,753	86
May	841,822	124	485,544	131	839,665	104
June	690,185	101	384,740	104	862,409	106
July	787,652	116	447,774	121	948,642	117
August	829,593	122	497,766	134	1,020,487	126
September	812,782	119	480,224	129	1,071,830	132
October	778,186	114	441,139	119	1,046,509	129
November	616,012	90	308,327	83	915,795	113
December	507,605	75	232,399	62	607,703	75

* Index of seasonal variation in which 12-month average equals 100 per cent.

Credit sales showed a greater relative variation from season to season being only 58 per cent of average in February but increasing to 134 per cent of average in August, indicating that demand for such credit is greater late in the crop production season. Table 1 also indicates that accounts receivable increased steadily from February through September. The outstanding accounts of these 85 associations were $552,637 in February and nearly doubled to reach a peak of $1,071,830 in September.

It is apparent from these wide seasonal variations in credit sales and outstanding accounts that the patrons use these associations for financing their seasonal livestock and crop production. Where patrons use banks, production credit associations, and other institutions for financing production credit, the oil associations can sell more of their supplies for cash and avoid entering the loan business.

Credit Extension

Most associations followed the practice of having the manager supervise the extension of credit. In many instances either the board of directors or a credit committee assisted the manager in handling this problem. Truck salesmen were generally authorized to extend credit within the limits specified by the board or manager. Responsibility for credit losses was placed on the manager and truck salesmen by 33 associations. The most common method is to withhold a percentage of their commissions each month as a reserve for losses. At the end of the year, or other intervals, the doubtful accounts are written off against the reserve and turned over to the employee. While this policy may encourage greater care in granting credit, several disadvantages are involved. One is that some employees may be tempted to resort to dishonest means to cover their losses.

In determining to whom credit would be extended, the patron's credit record, reputation, and capacity and willingness to pay were the principal considerations. Some associations called on local bankers and merchants for credit information, while others made use of local credit associations and other commercial credit services. Only a few associations adhered to a definite formal procedure in determining whether credit should be granted. The better systems required that patrons seeking credit fill out credit application cards. The information required varied,

[1] This is a preliminary report on the study of credit practices and credit costs. It is expected that a more detailed report of the results will be released in several months.

Assistance in the preparation of these materials was furnished by the personnel of Works Progress Administration Official Project No. 65-1-71-140, Sub-project 452.

but usually the patron had to state whether he was a tenant or owner, state his income, give several references, and sometimes indicate just how and when he expected to repay the account. Several associations have recently adopted the policy of requiring a definite understanding at the time of each sale as to when the account, if given, would be repaid. Under these systems the patron is made to understand that the use of the association's credit is a very limited privilege.

An increasing number of associations were tightening up on the amount and time for which credit was granted by one or more of several methods. A method meeting with considerable favor is the so-called "one fill" system. Under this plan the patron's oil containers will not be refilled until payment has been received for the previous delivery. A number of associations were shifting to a "strictly cash" or "modified cash" basis and with considerable success. Nineteen of the 85 associations were encouraging cash payment at the time of sale by offering 2, 3, or 5 per cent cash discounts to those having no unpaid accounts.

Credit Collection

Table 2 shows the accounts receivable classified according to age in 72 out of 85 associations which "aged" their accounts. Various accounting studies have shown that the longer the period for which an account is outstanding the greater is probability of loss. According to table 2, about 13 per cent of the accounts of these associations were more than one year old, or in the very doubtful collection class. Only 34.2 per cent of the accounts were less than 30 days old or completely current.

Table 2. Accounts Receivable of 72 Minnesota Cooperative Oil Associations Classified According to Age, 1940

Age	Accounts receivable	Per cent of total
Less than 30 days	$152,172	34.2
1- 3 months	109,369	24.5
3- 6 months	75,099	16.9
6-12 months	49,082	11.0
More than 1 year	59,592	13.4
Total	$445,314	100.0

A wide range of methods were used in making collections on account. Nearly all the associations sent monthly statements to their patrons. If there was no response to this reminder of the credit obligation, many associations followed up with a personal or form collection letter. If these methods brought no results, the manager generally made a personal call. In general, the associations which had the greatest success with their collections were those which conducted a very close follow-up of the uncollected accounts.

Cost of Credit Service

The costs involved in extending credit and collecting accounts are at times not fully realized by the managers, directors, and particularly not the patrons of most purchasing associations. These costs include interest on capital tied up in receivables, extra accounting costs, collection expenses, and losses on bad debts. In addition to these are certain less measurable costs such as the loss of patronage of those who are under pressure to pay their accounts.

The total measurable credit costs of 42 of the 85 associations included in this study amounted to $1.82 for every $100 of sales. The average credit costs per $100 of credit sales amounted to $3.41. The credit costs per $100 of credit sales ranged from a low of $1.20 in one association to a high of $8.49 in another.

The 1940 net income of the associations studied averaged $7.38 per $100 of sales. If it had been possible for these associations to eliminate completely their credit costs, another $1.82 per $100 could have been added to net income. This would have brought the average net income to $9.20 per $100 of sales.

It is apparent from a preliminary analysis of these associations that their credit problems are an important factor hampering the efficiency of operations and the attainment of a sound financial position. It is also apparent that many associations must make improvements in their control of credit in the near future if serious financial difficulties are to be avoided. With agricultural income at a higher level this year, the time is opportune to bring about more effective credit control.

In making the transition to a stricter credit policy the following general suggestions may be of value. First of all, the board and management must be convinced that the liberal extension of credit is a handicap to efficient operation so that they will support the new policy courageously. The accounting procedures of the associations should be improved so that credit costs may be determined and the effectiveness of the credit controls may be checked at least at monthly intervals. The patrons should be fully informed as to the need and the advantages of a stricter credit policy. The patrons, and in some cases the board and management, must realize that it is not one of the functions of the oil association to supply the farmer's seasonal or other credit needs. Patrons should be encouraged to obtain their credit from specialized credit institutions such as banks, production credit associations, and credit unions. In general, an association undertaking a restricted credit policy should at the outset make a definite statement of the terms of that policy to its patrons and then proceed to enforce it vigorously.

Movement of Feeding and Breeding Cattle and Sheep Into Minnesota[1]

A. A. Dowell and Gerald Engelman

From 57 to 61 per cent of the cattle and calves shipped into Minnesota for feeding, grazing, breeding, and dairying purposes during the four-year period 1936-39 moved through public stockyards markets, while from 39 to 43 per cent were purchased direct from other states. These figures do not include the movement of cattle and calves from farm to farm within the state.

From 41 to 45 per cent of the feeder cattle and calves were purchased direct compared with 20 to 27 per cent of the breeding and dairy animals. The trend in the pro-

[1] Assistance in the preparation of these materials was furnished by the personnel of Works Progress Administration, Official Project No. 65-1-71-140, Sub-project 429.

The data were obtained from records of shipments into Minnesota, filed in the office of the State Livestock Sanitary Board.

portion of breeding and dairy animals purchased at public stockyards markets was slightly upward during the period, while in the case of feeder animals, the trend was upward from 1936 to 1937 but downward from 1938 to 1939.

As shown in table 1, total shipments of cattle and calves into the state declined from 170,000 head in 1936 to 141,000 head in 1938, and then increased sharply to 194,000 head in 1939. Most of these animals were purchased for feeding and grazing, only 12 to 14 per cent having been shipped in for breeding and dairy purposes.

Table 1. Cattle and Calves Received in Minnesota, Classified by Source and Purpose, by Years, 1936-39

Source and Purpose	1936	1937	1938	1939
Source		Number		
From public stockyards	96,586	87,551	86,049	115,903
Direct from states	73,154	56,694	54,611	77,749
Total	169,740	144,245	140,660	193,652
Purpose				
For feeding and grazing	148,792	127,640	124,172	165,715
For breeding and dairying	20,948	16,605	16,488	27,937
Total	169,740	144,245	140,660	193,652

Of the cattle and calves obtained at public stockyards, 70 per cent of those purchased for feeding and grazing and about 92 per cent of those purchased for breeding and dairying were purchased at South St. Paul. Other leading public markets included West Fargo, Sioux Falls, and Sioux City. South Dakota was the most important source of supplies of all classes of cattle purchased direct. Montana ranked second in the case of feeder cattle, with North Dakota third and Nebraska fourth. North Dakota was the second most important source of direct shipments of breeding and dairy animals, while Iowa ranked third.

A higher proportion of feeding and breeding sheep and lambs was purchased direct than of cattle and calves; the proportion varying from 51 to 73 per cent (table 2). Feeder sheep constituted from 94 to 97 per cent of all imports of sheep and lambs for feeding and breeding.

Table 2. Sheep and Lambs Received in Minnesota, Classified by Source and Purpose, by Years, 1936-39

Source and Purpose	1936	1937	1938	1939
Source		Number		
From public stockyards	161,532	145,597	164,181	151,219
Direct from states	446,941	213,165	173,601	270,185
Total	608,473	358,762	337,782	421,404
Purpose				
For feeding	574,467	346,009	326,597	407,869
For breeding	34,006	12,753	11,185	13,535
Total	608,473	358,762	337,782	421,404

South St. Paul was the most important source of supplies of public market shipments of feeder sheep and lambs, with Ogden, Utah, ranking second, West Fargo, third, and Denver, fourth. Montana was the most important source of direct shipments of feeder sheep and lambs, with South Dakota second, Idaho third, and Oregon fourth. South St. Paul also led all public markets as a source of supplies of breeding sheep and lambs, with West Fargo second. South Dakota was the most important source of direct shipments of breeding sheep, while North Dakota ranked second, and Oregon third.

Feed Costs and Returns from Poultry Production

TRUMAN R. NODLAND

The farm records of the cooperators in the Southeastern Minnesota Farm Management Service are an excellent source of information concerning farm poultry raising. The information can be used in studying trends in the poultry industry, for budgeting feed supplies for the year, and, when supplemented with outlook material, it is valuable for making plans for the future. The poultry records were secured from approximately 140 farmers each year for a 13-year period.

The number of hens kept per farm, the number of eggs laid per hen, and the feed consumption per hen are shown in table 1. The quantity and cost of feeds per hen includes the feed for the entire flock of chickens. Farm records have shown that poultry raising has been a relatively profitable enterprise. This has resulted in an increase in the number of hens kept and in the quantity of feed and care given to the flock. Corn and small grain are the principal concentrates fed; less than 20 per cent of the concentrates were purchased commercial feeds.[1]

Table 1. Size of Flock, Production and Feeds per Hen

	1928-30	1931-34	1935-38	1939-40	13-year average
Number of hens per farm	142	185	196	202	181
Percentage of hens that were pullets	63	74	76	75	72
Number of eggs laid per hen	100	115	132	128	119
Pounds of feed per hen:					
Concentrates	100	110	117	119	111
Skim milk	53	64	47	32	52

The cost of the feed and the value of the product per hen are shown in table 2. The cost of feed is based on average farm prices in the area. The net increase in value of poultry is determined by adding the sales, the value of poultry used in the house, and the ending inventory and deducting from this total the value of the beginning inventory and the purchases. The main emphasis is placed on egg production with approximately 75 per cent of returns coming from that source. The returns above feed cost is the amount available to the farmer to pay for his labor, management, buildings, equipment, interest, etc.

Table 2. Feed Costs and Returns in Poultry Production

	1928-30	1931-34	1935-38	1939-40	13-year average
Value of feed per hen:					
Concentrates	$1.40	$ .99	$1.59	$1.25	$1.31
Skim milk	.13	.08	.07	.05	.08
Total feed cost	$1.53	$1.07	$1.66	$1.30	$1.39
Value of produce per hen:					
Eggs sold and used in house	2.11	1.36	2.17	1.73	1.84
Net increase in value of poultry	1.09	.61	.64	.51	.71
Total returns	$3.20	$1.97	$2.81	$2.24	$2.55
Returns above feed cost	1.67	.90	1.15	.94	1.16
Price received per dozen eggs sold, cents	25.6	14.2	19.9	15.9	18.8
Average feed prices:					
Corn per bushel	$ .64	$ .36	$ .61	$ .38	$ .51
Oats per bushel	.40	.24	.30	.24	.30
Meat scraps per cwt.	4.10	2.05	2.70	2.75	2.80
Skim milk per cwt.	.25	.13	.15	.15	.17

[1] Wilkens, George, "The Poultry Enterprise in Southeastern Minnesota Farms," Farm Business Notes, No. 220, April, 1941.

Minnesota Farm Prices for July, 1941

Prepared by W. C. WAITE and W. B. GARVER

The index number of Minnesota farm prices for the month of July, 1941, was 94. When the average of farm prices of the three Julys, 1924-25-26, is represented by 100, the indexes for July of each year from 1924 to date are as follows:

1924— 85	1929—110	1934— 56	1939— 61*
1925—107	1930— 82	1935— 73	1940— 66*
1926—107	1931— 57	1936— 86	1941— 94*
1927— 98	1932— 45	1937— 95	
1928—110	1933— 58	1938— 73	

* Preliminary.

The price index of 94 for the past month is the net result of increases and decreases in the prices of farm products in July, 1941, over the average of July, 1924-25-26, weighted according to their relative importance.

Average Farm Prices Used in Computing the Minnesota Farm Price Index, July, 1941, with Comparisons*

	July 15, 1941	June 15, 1941	July 15, 1940		July 15, 1941	June 15, 1941	July 15, 1940
Wheat	$0.86	$0.85	$0.64	Cattle	$8.70	$8.30	$7.20
Corn	.56	.55	.50	Calves	10.20	10.10	8.50
Oats	.27	.27	.25	Lambs-Sheep	9.11	9.02	7.95
Barley	.41	.43	.34	Chickens	.15	.14	.11
Rye	.43	.44	.32	Eggs	.23	.21	.14
Flax	1.72	1.64	1.44	Butterfat	.38	.38	.28
Potatoes	.60	.40	.70	Hay	4.89	5.34	4.60
Hogs	10.10	9.10	5.60	Milk	1.75	1.65	1.50
				Wool†	.38	.39	.29

* These are the average prices for Minnesota as reported by the United States Department of Agriculture.

† Not included in the price index number.

The rise of three points in the price index from June brings the index to its highest point since 1937. At 94 the index is 55 per cent above the level for March of this year when this year's rise began. Most spectacular improvement was that of hogs, which showed a gain of $1.00 per hundredweight over the June figure. All classes of livestock showed price improvement, with a gain of 40 cents for cattle and minor rises for veal calves and sheep. Changes in prices for crop items were somewhat mixed, with wheat, oats, flax, and potatoes showing more than the usual seasonal rise, while corn, barley, rye, and hay appeared somewhat weak in relation to usual seasonal movement.

Indexes and Ratios of Minnesota Agriculture*

	July 1941	June 1941	July 1940	Average July 1924-26
U. S. farm price index	89.9	84.9	68.4	100
Minnesota farm price index	93.9	91.4	66.4	100
U. S. purchasing power of farm products	106.7	103.1	85.7	100
Minn. purchasing power of farm products	111.3	111.0	83.3	100
Minn. farmers share of consumers food dollar	.....	48.9	43.6	53.5
U. S. hog-corn ratio	14.7	13.1	9.2	12.0
Minnesota hog-corn ratio	18.0	16.5	11.2	13.2
Minnesota beef-corn ratio	15.5	15.1	14.4	7.9
Minnesota egg-grain ratio	20.3	18.9	14.4	14.0
Minnesota butterfat-farm-grain ratio	42.9	42.6	35.4	32.0

* Explanation of the computation of these data may be had upon request.

"Parity" Prices

"Parity" of prices and income with the 1910-1914 period has been for a number of years the official goal of national agricultural policy. Current agitation for and discussion of price ceilings to prevent a disastrous runaway inflation has resulted in greater interest in "parity" prices. In view of the rises in most farm commodities that have occurred in recent months it is of interest to ask how far toward "parity" Minnesota prices have advanced. For Minnesota's 16 principal commodities taken together the July prices were 1 per cent above "parity." In arriving at this result the base year, 1910-14, average price for each commodity was multiplied by the July index of prices paid by farmers for items used in living and production, thus obtaining "parity" prices for July. The "parity" prices and actual July prices were then multiplied by the average quantities of each commodity marketed in 1935-39. The table below gives the 1910-14 price, "parity" price and July price for each commodity.

Parity (1910-14) Averages for Minnesota Farm Products

	Average 1910-14 price	"Parity" price (x 1.29)	July 1941 price	Per cent of parity
Wheat	.887	1.14	.86	75
Corn	.511	.66	.56	85
Oats	.341	.44	.27	61
Barley	.594	.77	.41	53
Rye	.642	.83	.43	52
Flax	1.659	2.14	1.72	80
Potatoes	.506	.65	.60	92
Hay	9.348	12.06	4.89	41
Hogs	7.081	9.13	10.10	111
Cattle	4.763	6.14	8.70	142
Calves	6.397	8.25	10.20	124
Lambs-Sheep	5.373	6.93	9.11	131
Chickens	.099	.127	.147	116
Eggs	.176	.227	.232	102
Butterfat	.295	.38	.38	100
Milk	1.469	1.90	1.75	92

Even though, taken as a whole, Minnesota agriculture has achieved price "parity," the gains are very unevenly spread. Livestock producers appear to have fared best, for July prices for livestock were 23 per cent above "parity." Dairy and poultry products collectively were at 1 per cent above "parity." But crops prices taken together were still 29 per cent below "parity."

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