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**Commodity  
Costs and Returns  
Estimation  
Handbook**

A Report of the AAEA Task Force on Commodity Costs and Returns

July 20, 1998

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# TABLE OF CONTENTS

PREFACE ..... xi

CHAPTER 1: INTRODUCTION ..... 1-1

GENESIS AND OVERVIEW OF REPORT ..... 1-1

ORGANIZATION OF THE HANDBOOK ..... 1-2

Chapter 2 - Conceptual Issues in Cost and Return Estimates ..... 1-2

Chapter 3 - Revenues and Government Programs Participation ..... 1-5

Chapter 4 - Purchased and Farm-Raised Expendable Inputs ..... 1-6

Chapter 5 - Machinery, Equipment, and Buildings: Operating Costs ..... 1-6

Chapter 6 - Machinery, Equipment, and Buildings: Ownership Costs ..... 1-7

Chapter 7 - Land ..... 1-8

Chapter 8 - Labor and Management: Farm Labor and Related Services ..... 1-8

Chapter 9 - Joint Costs, General Farm Overhead, and Rights to Produce ..... 1-9

Chapter 10 - Allocating Preproductive Costs for Multiyear Enterprises ..... 1-10

Chapter 11 - International Comparisons ..... 1-11

Chapter 12 - Data Sources and Statistical Issues ..... 1-11

Chapter 13 - Structure and Content of Cost and Return Reports ..... 1-11

Chapter 14 and Chapter 15 - Examples of Cost and Return Estimates ..... 1-11

SUMMARY ..... 1-12

CHAPTER 2: CONCEPTUAL ISSUES IN COST AND RETURN ESTIMATES ..... 2-1

DEFINITION OF AN ENTERPRISE ..... 2-1

TYPES OF CAR ESTIMATES AND THEIR USES ..... 2-2

Definitions of Specific Types of Estimates ..... 2-2

Background to Definitions ..... 2-3

SCOPE OF CAR ESTIMATES ..... 2-4

DEFINING FACTORS OF PRODUCTION AND PRODUCTS ..... 2-5

VALUING FACTORS OF PRODUCTION ..... 2-9

Valuing Factors that Differ in One or More Attributes ..... 2-9

Valuing Expendable Factors that are Purchased ..... 2-10

Valuing Capital Services that are Purchased ..... 2-10

Valuing Factors for which there is no Market Transaction ..... 2-10

*Valuing Produced Expendables* ..... 2-11

*Valuing the Capital Services of Owned Capital* ..... 2-11

Accounting for Transactions Costs ..... 2-11

TIME PREFERENCES, INTEREST, AND INFLATION ..... 2-13

Discounting CAR Flows ..... 2-14

Measuring Growth Rates of Economic Variables and Compounding of Interest ..... 2-17

Real and Nominal Magnitudes ..... 2-18

Implicit and Explicit Interest Charges and Time Adjustments for Within-Period CARs ..... 2-21

*Implicit and Explicit Discounting of CAR Flows* ..... 2-21

*A Comparison of the Recommended Method of Discounting  
 with Two Alternative Methods* ..... 2-23

Separating Within-Period Inflation and Real Interest Costs .....	2-28
Implicit and Explicit Interest Charges and Time Adjustments for Between-Period CARs ...	2-28
Risk Premiums .....	2-32
Choosing Rates of (Opportunity) Interest for CAR Estimation .....	2-32
<i>Determining the Risk-free Real Rate of Interest from a General Nominal Rate</i> .....	2-33
<i>Choosing Appropriate Nominal Rates of Interest from which to Construct</i>	
<i>a Risk-free Real Rate</i> .....	2-34
<i>Risk Differentials and Risky Discount Rates</i> .....	2-35
<i>The Capital Asset Pricing Model (CAPM) and Risk-Adjusted Discount Rates</i> .....	2-35
<i>Empirical Evidence on Riskiness of Asset Returns in Agriculture</i> .....	2-36
<i>Adjusting the Risk-free Real Interest Rate for Use in Agricultural CAR Analysis</i> .....	2-37
<i>Estimates of the Market Excess Rate of Return</i> .....	2-37
<i>Suggested Risky Real Discount Rates for Agriculture</i> .....	2-38
<i>Adjusting the Risky Real Discount Rate to Account for Inflation</i> .....	2-42
VALUING THE SERVICES OF OWNED CAPITAL .....	2-43
Introduction and Example .....	2-43
Estimating the Costs of Capital Services .....	2-46
Measuring the Opportunity Costs of Capital .....	2-47
Measuring Economic Depreciation .....	2-49
Measuring Service Enhancement Costs .....	2-51
Maintenance Costs .....	2-52
Combining the Costs of Capital Services .....	2-53
Using Annuities to Value Owned Capital .....	2-55
VALUING THE CONTRIBUTION OF OPERATOR LABOR .....	2-59
COLLECTING, CREATING, AND USING PRICE SERIES .....	2-59
PROFITS AND RESIDUAL RETURNS .....	2-60
OTHER CAR CONCEPTS .....	2-61
APPENDIX 2A: Separating Real Interest Charges and Inflation	
from Nominal Interest Charges .....	2-66
APPENDIX 2B: Derivation of Annuity Formulas .....	2-72
Present Value of a Return Stream .....	2-72
Calculation of an Annuity Payment Representing a Present Value .....	2-73
General Annuities .....	2-79
APPENDIX 2C: Using Annuities to Represent the Costs of a Capital Asset: Example .....	2-84
CHAPTER 3: REVENUES AND GOVERNMENT PROGRAMS PARTICIPATION ...	3-1
INTRODUCTION .....	3-1
OUTPUTS OF PRODUCTION .....	3-2
Technical Production Unit .....	3-3
Yield: Quantity, Quality, and Aggregation .....	3-5
The Role of Inputs and Management Levels .....	3-5
Production Systems .....	3-6
Relationships Between Commodity Yields and Commodity Prices .....	3-6
Yield Quantity and Quality Variability .....	3-6
Harvested Yield and Marketable Yield .....	3-7
Multiproduct Production and Joint Products .....	3-7

Data Sources for Determining Yields .....	3-9
<i>Farm-Level Data</i> .....	3-9
<i>State/Federal Data</i> .....	3-9
<i>Marketing Associations, Cooperatives, and Private Dealers</i> .....	3-9
<i>Researchers, Forecasters, and Forecast Models</i> .....	3-10
Recommendations for Estimating Outputs .....	3-10
PRICING OF OUTPUT .....	3-10
Selecting the Point in Time for Pricing the Commodity .....	3-11
Regional Prices .....	3-12
Quality Differentials .....	3-12
Seasonal Price .....	3-12
Multiproduct Production and Joint Products .....	3-13
Thin Markets .....	3-13
Nontraded Commodities and Commodities Utilized on the Farm .....	3-14
Marketing Rights .....	3-14
Pricing Consumer Oriented Commodities .....	3-15
Forward Pricing .....	3-15
<i>Cash Forward Contracting</i> .....	3-16
<i>Futures Contracts</i> .....	3-17
<i>Futures Options</i> .....	3-17
Selecting the Appropriate Prices: Transactions or Averages .....	3-18
Sources of Price Data .....	3-18
Historic and Forecast Data .....	3-18
<i>Farm-Level Data</i> .....	3-19
<i>State/Federal Data</i> .....	3-19
<i>Marketing Associations, Cooperatives, and Private Dealers</i> .....	3-19
<i>Contracting Agents</i> .....	3-19
<i>Futures Markets</i> .....	3-20
<i>Researchers, Forecasters, and Forecast Models</i> .....	3-20
Recommendations for Pricing Output .....	3-20
GOVERNMENT PROGRAM RECEIPTS .....	3-21
Crop Programs .....	3-21
<i>Deficiency Payments</i> .....	3-22
<i>Marketing Loan Deficiency</i> .....	3-23
<i>Production Flexibility Contract Payments</i> .....	3-23
Livestock Programs .....	3-24
Marketing Orders .....	3-24
Disaster Payments .....	3-24
MISCELLANEOUS REVENUES .....	3-25
Insurance Revenues .....	3-25
<i>Commodity Loss or Damage Insurance</i> .....	3-25
<i>Commodity Stabilization Insurance</i> .....	3-26
Assessment Rebates .....	3-26
Consumption by Farm Household .....	3-27
Cooperative Dividends .....	3-27
SUMMARY .....	3-27

CHAPTER 4: PURCHASED AND FARM-RAISED EXPENDABLE INPUTS .....	4-1
INPUTS USED TO PRODUCE CROPS .....	4-2
Fertilizers .....	4-2
Seed and Transplants .....	4-4
Pesticides, Growth Regulators, and Harvest Aids .....	4-5
Irrigation .....	4-6
Miscellaneous Supplies .....	4-7
INPUTS USED TO PRODUCE LIVESTOCK .....	4-7
Feed .....	4-7
Feed Grinding, Pelleting, Mixing, and Handling .....	4-9
Feed Additives .....	4-9
Medicine and Veterinary Supplies .....	4-9
Breeding Fees and Semen .....	4-10
Livestock Purchased for Resale .....	4-10
Grazing Fees and Pasture Rental Rates .....	4-11
<i>Leased Forage</i> .....	4-12
<i>Raised Forage</i> .....	4-14
Miscellaneous Supplies .....	4-14
 CHAPTER 5: MACHINERY, EQUIPMENT, AND BUILDINGS:	
OPERATING COSTS .....	5-1
INTRODUCTION .....	5-1
Types of Costs Associated with Machinery, Equipment, and Buildings .....	5-1
Determining Input-Output Relationships for Machinery, Buildings, and Equipment .....	5-1
MACHINERY OPERATING COSTS .....	5-2
Methods to Estimate Machinery Operating Costs .....	5-2
Using Surveys to Estimate Machinery Operating Costs .....	5-3
Using Equations to Estimate Machinery Operating Costs for Crop Enterprises .....	5-6
<i>Farm Specification</i> .....	5-6
<i>Machinery Selection</i> .....	5-6
Engineering Equations for Estimating Machinery Repair Costs per Hour of Use .....	5-7
Converting Costs per Hour to Costs per Acre Using ASAE Standards .....	5-11
<i>Field Performance</i> .....	5-11
<i>Repair and Maintenance</i> .....	5-14
<i>Time Adjustments for Repair Costs</i> .....	5-16
Repair Cost Estimates for Used Machines .....	5-28
Fuel and Lubricants .....	5-30
<i>Engineering Equation Fuel Cost Estimates</i> .....	5-30
<i>Engineering Equation Lube Cost Estimates</i> .....	5-32
<i>Suggestions for Estimating Costs for Machines Not Listed in Tables</i> .....	5-32
IRRIGATION OPERATING COSTS .....	5-32
Repair and Maintenance Cost Estimates .....	5-33
Energy Cost Estimates .....	5-35
Irrigation Lubricant Costs .....	5-40
BUILDING AND EQUIPMENT OPERATING COSTS .....	5-46
INTEREST ON OPERATING COSTS (EXPENDABLE INPUTS) .....	5-46
Interest Rate Definitions .....	5-47

Estimating Interest for Historical CAR Estimates .....	5-47
Estimating Interest for Projected CAR Estimates .....	5-48
<i>Alternative 1</i> .....	5-48
<i>Alternative 2</i> .....	5-49
<i>Alternative 3</i> .....	5-50
Comparison of Alternatives .....	5-51
CUSTOM OPERATIONS AND CUSTOM RATES .....	5-51
Definition .....	5-51
Overview of Issues .....	5-51
Current Procedures .....	5-52
Recommended Procedure .....	5-53
OTHER COMMODITY-SPECIFIC COSTS .....	5-53
General Guidelines .....	5-54
Costs for Operations Which Can Be Completed Either On-Farm or Commercially .....	5-55
Costs for Services or Commodity-Specific Supplies .....	5-55
Costs Required for Obtaining the Rights to Produce or Sell Farm Products .....	5-55
Crop Insurance .....	5-55
Selected Commodity-Specific Costs .....	5-56
<i>Drying Costs</i> .....	5-56
<i>Storage Costs</i> .....	5-56
<i>Transportation Costs</i> .....	5-57
<i>Ginning Costs</i> .....	5-57
<i>Shearing Costs</i> .....	5-58
<i>Marketing Charges</i> .....	5-58
<i>Cartons, Bags, and Tags</i> .....	5-58
<i>Involuntary Checkoffs</i> .....	5-59
<i>Marketing Order Assessments</i> .....	5-59
<i>Permits and Quotas</i> .....	5-59
<i>Crop Insurance</i> .....	5-59

## CHAPTER 6: MACHINERY, EQUIPMENT, AND BUILDINGS:

OWNERSHIP COSTS .....	6-1
INTRODUCTION .....	6-1
PRODUCTIVITY OF DURABLE ASSETS .....	6-1
TYPES OF COSTS .....	6-2
Changes in Market Value .....	6-2
<i>Depreciation Resulting from Changes in Service Capacity</i> .....	6-2
<i>Price Changes</i> .....	6-5
Opportunity Costs .....	6-7
Market Value, Salvage Value, and Remaining Value .....	6-7
Maintenance Costs .....	6-11
Other (Time) Costs .....	6-12
ESTIMATING THE COSTS OF MACHINERY, BUILDINGS, AND EQUIPMENT .....	6-12
Estimating Costs Assuming Ownership .....	6-12
Lease and Custom Costs .....	6-13
CAPITAL ASSETS AND NATURE OF THE ESTIMATES .....	6-13
ENTERPRISE SIZE AND DURABLE ASSETS .....	6-15



TIME POINT AND INFLATION .....	6-15
No Inflation .....	6-16
Inflation .....	6-16
PROCEDURES FOR COST ESTIMATION .....	6-17
EXAMPLE COST CALCULATION FOR A DURABLE ASSET .....	6-20
Costs with No Inflation .....	6-21
Inflation .....	6-22
Other Costs .....	6-24
JOINT COSTS AND OPTIMAL INPUT COMPLEMENTS .....	6-25
APPENDIX 6A: Combining Ownership and Use Costs for Durable Assets	
with Variable Productivity .....	6-31
APPENDIX 6B: Alternative Forms of the Equation for a Real and Nominal Annuity	
for Calculating Capital Costs .....	6-35
CHAPTER 7: LAND .....	7-1
TERMS AND DEFINITIONS .....	7-2
ESTIMATING THE VALUE OF LAND'S AGRICULTURAL CONTRIBUTIONS .....	7-3
Land Tenure Considerations .....	7-3
ESTIMATING LAND COSTS .....	7-4
Alternative 1 for Estimating Land Costs .....	7-4
Alternative 2 for Estimating Land Costs .....	7-5
Alternative 3 for Estimating Land Costs .....	7-5
Alternative 4 for Estimating Land Costs .....	7-6
CONCLUSION .....	7-6
CHAPTER 8: LABOR AND MANAGEMENT: FARM LABOR	
AND RELATED SERVICES .....	8-1
TERMS AND DEFINITIONS .....	8-1
OPPORTUNITY COST OF FARM LABOR .....	8-2
QUANTITY OF FARM LABOR .....	8-3
COSTS OF FARM LABOR .....	8-5
Hired Labor (No Ownership Claims) .....	8-5
Unpaid Labor and Salaried Labor with Ownership Claims .....	8-6
Alternative 1 .....	8-7
Alternative 2 .....	8-7
Alternative 3 .....	8-8
Alternative 4 .....	8-8
HEDONIC WAGE EQUATIONS FOR ESTIMATING LABOR COSTS .....	8-9
CONCLUSION .....	8-11
CHAPTER 9: JOINT COSTS, GENERAL FARM OVERHEAD,	
AND RIGHTS TO PRODUCE .....	9-1
JOINT COSTS .....	9-1
Definitions .....	9-1
Overview of Issues .....	9-1
PRODUCTION COSTS FOR JOINT TECHNOLOGIES AND ALLOCATED COSTS	
OF PRODUCTION FOR NON-JOINT TECHNOLOGIES .....	9-2

GENERAL FARM OVERHEAD EXPENSES .....	9-4
COMMONLY USED METHODS FOR ALLOCATING JOINT COSTS .....	9-5
Land .....	9-6
Machinery .....	9-6
Property Taxes .....	9-6
Buildings and Improvements .....	9-7
Insurance .....	9-7
Utilities .....	9-7
Labor .....	9-7
Management .....	9-7
General Farm Overhead .....	9-8
RIGHTS TO PRODUCE .....	9-10
Definition .....	9-10
Overview of Issues .....	9-10
<i>Ownership of Resources</i> .....	9-10
<i>Regulations on Use of Resources</i> .....	9-10
<i>Access to Markets</i> .....	9-10
<i>Access to Market Enhancements</i> .....	9-11
Estimation Procedures .....	9-11
<i>Costs to Acquire</i> .....	9-11
<i>Costs to Exercise</i> .....	9-12
Examples of Determining and Allocating Rights to Produce .....	9-12
<i>Federal Grazing Fees</i> .....	9-12
<i>Market Quotas</i> .....	9-14
<i>Government Programs</i> .....	9-14
<i>Water Rights</i> .....	9-14
CONCLUSIONS .....	9-15

## CHAPTER 10: ALLOCATING PREPRODUCTIVE COSTS

FOR MULTIYEAR ENTERPRISES .....	10-1
INTRODUCTION .....	10-1
DEFINITIONS .....	10-1
INFLATION ISSUES .....	10-2
ENTERPRISE ISSUES .....	10-7
Crops .....	10-7
Livestock .....	10-7
DETERMINING PREPRODUCTIVE COSTS (NET RETURNS) .....	10-8
ALLOCATION METHODS .....	10-10
Traditional Budgeting Method .....	10-10
Cost Recovery (Annuity) Method .....	10-12
Current Cost Method .....	10-14
Market Value Method .....	10-19
Historic Cost Method .....	10-19
Recommendation .....	10-20
Examples of Methods to Allocate Preproduction Costs: Dairy Cow Replacements .....	10-23
RECOMMENDATIONS .....	10-25
Format of Reports .....	10-26

COMPARING ANNUAL ENTERPRISES TO MULTIYEAR ENTERPRISES .....	10-26
Estimating Net Present Value .....	10-27
Converting to Equivalent Annual Annuity .....	10-29
APPENDIX 10A: Data on Almond Production .....	10-30
APPENDIX 10B: Allocating Preproductive Costs with the User Cost Method .....	10-34
Replacement Decision Method .....	10-34
Cling Peach Orchard Replacement Results .....	10-36
CHAPTER 11: INTERNATIONAL COMPARISONS .....	11-1
INTRODUCTION .....	11-1
REASONS FOR UNDERTAKING INTERNATIONAL COMPARISONS .....	11-1
INFORMATION SOURCES FOR INTERNATIONAL COMPARISONS .....	11-2
ISSUES ASSOCIATED WITH INTERNATIONAL COMPARISONS .....	11-2
Terminologies, Definitions, and Concepts .....	11-2
Policy-Induced Product and Input Price Distortions .....	11-3
Exchange Rates and Inflation .....	11-5
<i>Inflation</i> .....	11-5
<i>Exchange Rates</i> .....	11-6
Exclusions and Unaccounted Costs .....	11-6
Product and Input Definitions .....	11-8
<i>Alternatives</i> .....	11-8
Measurement Issues .....	11-9
<i>The Purpose of CAR Estimates</i> .....	11-9
<i>Whose CARs are Being Estimated?</i> .....	11-9
<i>"Representativeness" of Data</i> .....	11-10
<i>Prices and Quantities</i> .....	11-10
<i>Labor Quantity and Value</i> .....	11-10
<i>Interest Rates</i> .....	11-11
<i>Activity Timing</i> .....	11-11
Technological Differences .....	11-12
Financial Accounting Versus Economic CARs .....	11-12
INTERNATIONAL COMPARISON OF PRODUCTION CARs:	
A CASE STUDY OF FIELD CORN IN CALIFORNIA AND HONDURAS .....	11-12
Objective of the Comparison .....	11-13
The CAR Estimates .....	11-13
<i>Comparison of California and Honduras CAR Estimates</i> .....	11-13
<i>Adjustments</i> .....	11-14
<i>Land Cost</i> .....	11-14
<i>Interest Rate</i> .....	11-14
<i>Time of CAR Estimate</i> .....	11-15
Omissions and Unresolved Problems .....	11-15
<i>Product Definition</i> .....	11-15
<i>Currency Conversion</i> .....	11-15
<i>Export Prices</i> .....	11-16
Comparison of Results .....	11-16

CHAPTER 12: DATA SOURCES AND STATISTICAL ISSUES .....	12-1
INTRODUCTION .....	12-1
Defining the Target Population .....	12-1
Selecting Representative Data .....	12-2
DATA SOURCES .....	12-2
Alternatives for Generating Data .....	12-3
<i>Probability Surveys</i> .....	12-3
<i>Farm Record Systems</i> .....	12-4
<i>The Economic Engineering Approach</i> .....	12-5
Comparisons of Estimates from Alternative Data Sources .....	12-6
RELIABILITY ISSUES WITH DATA .....	12-8
Sampling Variability .....	12-9
Bias and Its Sources .....	12-9
<i>Response Bias</i> .....	12-9
<i>Nonresponse Bias</i> .....	12-11
<i>Coverage Bias</i> .....	12-12
RELIABILITY ISSUES WITH ANALYSIS .....	12-12
Appropriate Use of Weights .....	12-12
Mixing Data From Multiple Sources .....	12-13
FUTURE POSSIBILITIES .....	12-14
Procedures For an Integrated USDA and University Farm Record System .....	12-15
APPENDIX 12A: OVERVIEW OF STATISTICAL SAMPLING TECHNIQUES .....	12-17
Simple Random Sampling .....	12-17
Systematic Sampling .....	12-17
Stratified Sampling .....	12-18
Single and Multistage Cluster Sampling .....	12-18
Probability Proportional to Size Sampling .....	12-18
APPENDIX 12B: GUIDELINES FOR ROUNDING CAR ESTIMATES .....	12-19
 CHAPTER 13: STRUCTURE AND CONTENT OF COST AND RETURN REPORTS .....	 13-1
CAR IDENTIFICATION, DOCUMENTATION, AND DESCRIPTION .....	13-1
FORMATS FOR CAR SUMMARIES AND SUPPORTING TABLES AND FOOTNOTES ...	13-2
CAR Summaries .....	13-2
CAR Items and Item Groups .....	13-3
Supporting Tables .....	13-4
Footnotes .....	13-5
DATA VERIFICATION, EDITING, UPDATING, AND SHARING .....	13-6
Recommended Methods for Data Sharing .....	13-8
APPENDIX 13A: SUPPLEMENTARY DATA TABLES FOR CHAPTER 13 .....	13-30
APPENDIX 13B: PROCEDURES TO ENHANCE THE DATA MANAGEMENT	
PROCESS AND DATA SHARING .....	13-62
Illustration of Data Management Procedures .....	13-62
 CHAPTER 14: EXAMPLES OF COST AND RETURN ESTIMATES:	
UPPER MIDWEST DAIRY FARM .....	14-1
UPPER MIDWEST DAIRY FARM .....	14-1

Farm Description .....	14-1
Assumptions for Projected CARs .....	14-2
<i>Gross Value of Production</i> .....	14-2
<i>Fuel, Lube, and Repairs</i> .....	14-2
<i>Interest</i> .....	14-4
<i>Labor</i> .....	14-4
<i>Capital Recovery</i> .....	14-4
<i>Other Overhead Costs</i> .....	14-4
APPENDIX 14A: SUPPLEMENTARY DATA TABLES FOR CHAPTER 14 .....	14-37
Overview .....	14-37
Data, Assumptions, and Calculations Used for Estimating Machine Costs .....	14-37
Calculation of Machine Complement Costs .....	14-39
Costs of Corn Production .....	14-40
Costs of Soybean Production .....	14-41
Costs of Alfalfa Establishment .....	14-42
Labor Costs .....	14-42
 CHAPTER 15: EXAMPLES OF COST AND RETURN ESTIMATES:	
COTTON-ALMOND FARM IN SAN JOAQUIN VALLEY,	
CALIFORNIA – 1992 .....	15-1
FARM DESCRIPTION .....	15-1
REVENUE .....	15-2
LABOR .....	15-2
GENERAL OPERATING COSTS .....	15-2
CASH OVERHEAD .....	15-2
Property Taxes .....	15-2
Interest Rates .....	15-3
Insurance .....	15-3
Office Expense .....	15-3
NONCASH OVERHEAD .....	15-3
Capital Recovery Costs .....	15-4
Salvage Value .....	15-4
Capital Recovery Factor .....	15-4
EQUIPMENT CASH COSTS .....	15-5
LAND .....	15-6
GOVERNMENT PROGRAM PARTICIPATION .....	15-6
 GLOSSARY .....	
	G-1
 MEMBERS OF THE TASK FORCE .....	
	TF-1
 LITERATURE CITED .....	
	LC-1

## PREFACE

This handbook's purpose is to gather in one place information on estimating costs of and returns to agricultural enterprises. Some of the earliest formal work in agricultural economics related to the analysis and interpretation of cost data (H. C. Taylor). A major task of many individuals over the years has been the preparation and distribution of detailed cost of production estimates and projections. Undergraduate students in farm management classes have spent many hours learning how to prepare a projected corn or rice budget. In many states the extension service routinely prepares representative cost of production projections for use by area producers. And in many areas farm record associations provide annual cost of production summaries based on data collected from members. The United States Department of Agriculture (USDA) has been involved in the estimation of costs and returns (CARs) to agricultural enterprises for many years, the latest effort under the auspices of the Agricultural Resource Management Study (ARMS). This monograph was prepared by a Task Force organized by the American Agricultural Economics Association's Economic Statistics and Information Resources Committee. The mission given to the Task Force by the committee was *"to recommend standardized practices for generating costs and returns estimates for agricultural commodities after a careful examination of the relevant economic theory and the merits of alternative methods."* The Task Force first met in February 1992. Based on discussions at that meeting, the Task Force was organized into three committees and twelve subcommittees. The drafts of Chapters 3-13 were prepared by these subcommittees. Chapters 1-2 and 14-15 were prepared by the steering committee. At later meetings of the Task Force, issues that spanned more than one committee were analyzed and debated. Additional drafts were prepared and distributed to the members of the Task Force. All members of the Task Force had the opportunity to comment on each chapter. The steering committee prepared the penultimate draft based on comments on earlier drafts and consultation with committee chairs concerning inconsistencies between various chapters in the handbook. This draft was distributed to all Task Force members in the Fall of 1996 and was returned in early 1997. The final copy before you was prepared by the steering committee and is based on this last set of comments and consultation with committee members.

Thanks are due to many individuals who helped in the preparation of this report. The names of all 68 members of the Task Force are listed in an appendix to the handbook. Special thanks is due to the committee chairs, Ken Paxton of Louisiana State University, Cole Gustafson of North Dakota State University, and Odell Walker of Oklahoma State University. Subcommittee chairs were Jim Wade of the University of Arizona and now of the University of Maryland, Stan Spurlock of Mississippi State University, Darrel Kletke of Oklahoma State University, Glenn Helmers of the University of Nebraska, Lindon Robison of Michigan State University, Wallace Huffman of Iowa State University, Tim Cross of Oregon State and now of the University of Tennessee, Carol House of the National Agricultural Statistics Service, George Casler of Cornell University, Steve Harsh of Michigan State University, and Brian Davey of Ag Canada. Special thanks goes to Jim Johnson and Mary Ahearn of ERS who had a big part in the appointment of this Task Force. A number of individuals not on the Task Force were gracious enough to read drafts of chapters. These include Bud Stanton of Cornell, Bruce Bjornson of the University of Missouri, Rob Innes of the University of Arizona, Scott Irwin of Ohio State University, Bruce Gardner of the University of Maryland, and Greg Perry of Oregon State University. The technical editor was Linda Chimenti of Ames, Iowa. Joe Balagtas and Ke Fei Li of Iowa State University were also very helpful in proofing various drafts of the manuscript for readability and computational accuracy. Marilyn Clement of the University of Minnesota was responsible for collecting the initial drafts and preparing a readable document for distribution and editing. Donna Otto of Iowa State provided her standard superb efforts in typing, proofing, and assembling the later versions of the manuscript.

Vernon Eidman, University of Minnesota  
Arne Hallam, Iowa State University  
Mitch Morehart, USDA, ERS  
Karen Klonsky, University of California, Davis

