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## FORUM

### FARM RECORDING SYSTEMS—A LAMENT

A considerable number of farm recording systems have been published over the years in journal articles, textbooks, record books, and computer packages. The chief source of inspiration has been the State Departments of Agriculture, followed by accountants and, latterly, the universities and some business firms. The majority of systems have offered simply a cash book. Some have provided a form of assets and liabilities statement, and a few have incorporated production registers and even daily activity registers.

Despite the widespread and sustained exposure to farm recording systems and procedures, few property owners have collected a set of farm records for use in their business activities. The cause of the failure has not been fully investigated, but it appears to lie in a false appreciation, at least on the part of designers, of the value of farm records. The day-to-day operation of a property does not require sophisticated cash books, profit and loss statements, and comparative analysis. Budgetary control procedures are more important.

For most farming enterprises a quite adequate recording system comprises the usual assortment of tally books, delivery books, and stud or herd production records, plus the following special items.

- (1) A set of schedules for forecasting major enterprise activities and total business cash flows in quarterly rests.
- (2) A diary, preferably designed especially for farm business use.
- (3) A paddock register and a production summary.
- (4) A cash book providing space for account coding.
- (5) A set of schedules for analyzing and comparing expected and actual receipts, marketing expenses, and payments.

None of the systems publicized to date fully meet the above specifications. The basic essentials have been incorporated into some of the more recent systems, but page layout and an awareness of exactly what data are necessary still leave much to be desired.

Further investigation of farm recording systems is obviously essential, though the effort needs to be carefully controlled and, initially at least, channelled in two main directions.

First, on-farm studies are needed of what records can be used, with the aim of developing practical systems and procedures. It may be necessary at this stage to examine each major combination of farming enterprises and to develop a separate system for each combination.

Second, consideration of possible ways to reduce the workload of collecting farm records is required. Many farmers genuinely are unable to devote time to preparing budgetary control statements, collecting and summarizing production records, completing cash books, and comparing actual and expected returns. Some tasks, of course, can only be undertaken by the farm business manager, but part of the work could be contracted by secretarial services, or short-circuited by computerization of the diary and cheque book. Many farmers in the United States receive assistance in keeping farm records by using specially designed cheque forms which are completed and coded for computer analysis in the preparation of a bank statement. The service dispenses with the chore of completing cheque butts and writing up a cash book. Similar assistance with the compilation of paddock registers and production summaries could be achieved by computerization of the daily diary.

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### MILK IS MONEY

Milk produced in the Hunter Valley, New South Wales, is sold either as quota milk, at 51.4 cents per gallon, or surplus milk at prices ranging from 15 to 20 cents per gallon. The commonly held view amongst dairy farmers in the Hunter Valley is that any milk produced above the milk quota is not profitable. Farmers produce up to the quota, plus an amount to act as a buffer against any unexpected decline in production. In recent years the proportion of surplus milk produced has declined from 40 per cent of production to just over 10 per cent.

Farmers also have the attitude that while quota milk is profitable, the purchase of an additional quota is only worthwhile at "realistic" prices. Generally, farmers consider that any quota costing more than \$200 to \$300 per gallon is uneconomic.

It was to examine these two farmer hypotheses that research into the profitability of surplus and quota milk was undertaken in the Hunter Valley. The results of this work are summarized below.<sup>1</sup>

#### SURPLUS MILK

The profitability of surplus milk was examined from the viewpoint of the marginal return from adding one cow to the herd. Farm data on the cost of milk production was collected in three areas, Maitland, Taree and Muswellbrook.

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<sup>1</sup> See Richmond, R. N.: "Surplus Milk; Does It Pay?" Farm Planning Leaflet No. 24, New South Wales Department of Agriculture, Maitland, 1971.  
Richmond, R. N.: "The Economics of Purchasing Quota for Whole Milk Production, Lower Hunter Valley, New South Wales". Farm Planning Leaflet No. 23, New South Wales Department of Agriculture, Maitland, 1971.

## FORUM

Cost of milk production per cow in the Maitland area was found to be \$70·60, representing 14·99 cents per gallon. The cost of the marginal cow added to the herd (assuming no increase in hired labour, or capital expenditure) was found to be \$44·44. This represented a marginal cost of 9·44 cents per gallon. Based on the data collected, the return to capital from the marginal cow was 63 per cent. Further cows could be added to the herd at returns of over 8 per cent, so long as no additional hired labour or capital expenditure was required.

A somewhat similar return on capital was found in the Taree area (66 per cent). Due to the higher cost of production at Muswellbrook, the return on capital from the marginal cow was only 29 per cent. For all three areas, however, farmers can produce surplus milk at a profit, so long as no additional hired labour or capital expenditure is required.

### QUOTA MILK

The price paid to purchase milk quota varies from as low as \$200 per gallon at Maitland, to over \$300 per gallon at Taree. Returns to capital from purchasing additional milk quota at the ruling price varies from 22 per cent at Maitland (\$200 per gallon for milk quota) to 20 per cent at Muswellbrook (\$250 per gallon) to 18 per cent at Taree (\$300 per gallon). Production costs per gallon vary significantly between the three areas, which in part explains the difference in returns.

For each of the three areas examined it was possible to calculate the maximum price per gallon of quota milk payable to get a minimum return on capital of 8 per cent. The maximum price payable was found to be \$640, \$600 and \$500 per gallon at Taree, Maitland and Muswellbrook respectively. Therefore, prices paid for milk quota can increase by 213, 300 and 200 per cent at Taree, Muswellbrook and Maitland respectively, and still maintain an earning rate in excess of 8 per cent.

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