Determining Your Cost of Production

Bob Battel, MSU Extension Agriculture Educator

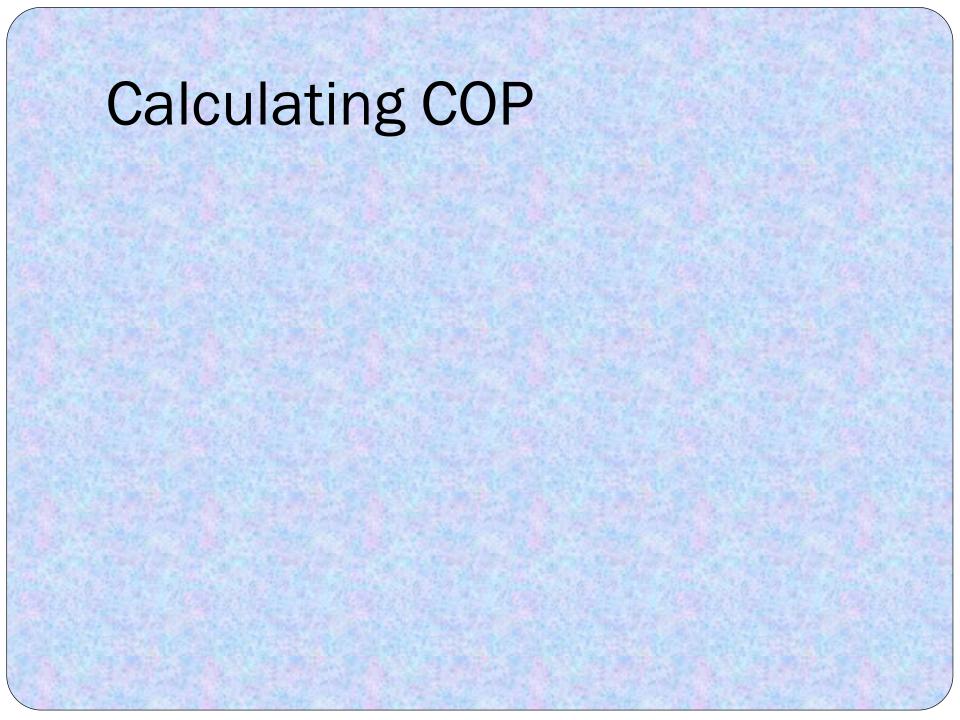
- Profitability of an individual business venture occurs when all costs of producing and marketing a particular product are less than the selling price.
 - North American Maple Syrup Producers
 Manual, The Ohio State University Extension
 Bulletin 856, 2006, pg 223

Why Determine Your COP?

- Form the basis for pricing products
- Identify items for cost cutting
- Determine profitability
- Budget future operational changes

Where can you find information?

- Schedule F
- Financial Records
- Receipts and bills



• Cost

\$7,678

- Cost
- Production

\$7,678

- Cost
- Production

\$7,678/244.5 gal.

- Cost
- Production

\$7,678/244.5 gal= \$31.40

- Are these the only costs?
- To calculate what production truly cost, must include unpaid labor

- Part of the cost of production
- Multiply "hours worked" by "a wage"
- Divide by gallons produced

- Part of the cost of production
- Multiply "hours worked" by "a wage"
- Divide by gallons produced

500 hours worked

- Part of the cost of production
- Multiply "hours worked" by "a wage"
- Divide by gallons produced

500 hours worked X \$10/hr

- Part of the cost of production
- Multiply "hours worked" by "a wage"
- Divide by gallons produced

500 hours worked X \$10/hr = \$5,000

- Part of the cost of production
- Multiply "hours worked" by "a wage"
- Divide by gallons produced

500 hours worked X \$10/hr = \$5,000

\$5,000 /244.5 gal= \$20.45

\$31.40 (Economic Cost)
+

\$20.45 (Unpaid Lbr. Cost)

\$51.85 Cost of Production

•If AVERAGE syrup sales is greater than \$51.85, then this sugar bush made a profit

- Receipts
 - •\$12,762
- Gallons sold
 - •234.2
- Average syrup sales
 - •\$54.49
- \$54.49 is greater than \$51.85

Michigan Maple Syrup Cost of Production Worksheet

- Same calculation
- Categorizes incomes
- Categorizes expenses
- Allows for budgeting future changes
- Splits "cash" costs from
 - "depreciation" costs

Cash Costs vs. Depreciation Cost

- Cash items are expensed in the year they are purchased
 - •Examples: fuel, hired labor, supplies, containers, repairs
- Depreciable items are expensed over their useful life (5, 7, 10 or more years)
 - Examples: evaporators, filter presses, tubing systems

My offer to you...

- Fill out the input sheets
- Return them to me (SASE)
- I will compile data (confidentially)
- Return your COP worksheet
- Provide benchmark data