

Producer Panel
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Observation Notes:

Over the years I have had the opportunity to work with many farmers in setting up computer accounting for their operation.

Some observations that I have observed of them and our operation would include:

Procrastination and Depression:

-the work load is heavy, it hasn't rained, the market is down, the bills are do and its time to go over the budget. GUESS WHAT DOESNT GET DONE !!!

A budget setup at the beginning of the year and not kept current monthly is only a gauge of how well we guessed at the beginning of the year.

Our problem is the busiest time of the year laboring, is also the time of year that are expenses are the most.

I have been asked many times what my cost of production is for a bushel of wheat --- My answer is, I don't know-I have not produced it yet. BUT I do know what my total cost of operation next year will be within 5-10% .

What we do on our operation:

We started keeping financial records in ledger by hand and finally have gone to a computer. We have had many accounting programs and started with a spreadsheet first. Today we use Quickbooks Pro., along with annual category reports exported/imported into Excel. The spreadsheet gives us the ability to look at many years worth of annual expenses by category and obtain an average. (in a spreadsheet, we can make adjustments for expected higher/lower prices without disturbing our actual records) This is where we make our budget for the coming year.

Our cost of production components include basic costs, member & employee salaries and debt relief. (In 1999 we used \$130.00 a cropped acre, will be too low this year, because of an increase in chemical fallowing).

At the beginning of the year we analyze our total expected costs for the coming year and divide this by our average total production to determine at what level we need to sell our grain to cover these costs or project a loss. At this point we analyze our crop insurance protection to project our risk for the coming year.

We use year-end basis as our gauge for all categories. We do however adjust the coming years budget for advanced purchases for the coming year. An example of this would be: buying a tanker load of fuel or buying fertilizer that normally would be part of the next years expense.

We try to determine our expenses on a monthly basis compared to our budget. This is always hard to do as our busiest time of the year is also the time of the year that our greatest unpredictable expenses i.e. additional spraying expenses, major breakdowns etc., occur and generally we don't spend enough time with this.

We always determine what each crop WW, SW etc. has done for us as far as profitability but we use a whole farm approach for P & L.

Our labor and management costs are a set monthly expenses (in the expense categories). For the owners (management), this is converted at the end of the year, for tax purposes, to an equity draw. We also have a separate expense category for new equipment. At the end of the year this is transferred to our equipment asset account. The reason we do this is, most general income and

expense (budget) reports ignore assets, equities and liabilities. Over the years we have forgotten that we purchased a depreciable item, we entered it into the asset account and was overlooked by us and the accountant, in the asset account, and therefore was not depreciated properly.

Our marketing plan has always been our weakest link, primarily because we have waited to determine the amount of grain we have produced in a given year. Hedging a portion of our crop is our preferred method of insuring a portion of our production costs, and/or when appropriate basis contracts, and/or forward contracting when we are comfortable with our production level. There is no set time of the year that we begin to hedge but it would primarily be in the springtime. For winter wheat producers over the last few years, the fall has probably yielded the greatest return. Normally, our marketing plan to cover our expenses has been completed by October or November through a combination of hedging, forward contracting and cash sales.

Our future plans include online banking using Quickbooks to save time and do a better job with analyzing our budget and marketing needs.

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