

Determining Your Cost of Production

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- 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

Calculating COP

Calculating COP

- Cost

\$7,678

Calculating COP

- Cost
- Production

\$7,678

Calculating COP

- Cost
- Production

$\$7,678 / 244.5 \text{ gal.}$

Calculating COP

- Cost
- Production

$$\$7,678 / 244.5 \text{ gal.} = \$31.40$$

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

Unpaid Labor

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

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500 hours worked

Unpaid Labor

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

500 hours worked X \$10/hr

Unpaid Labor

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

$$500 \text{ hours worked} \times \$10/\text{hr} = \$5,000$$

Unpaid Labor

- Part of the cost of production
- Multiply “hours worked” by “a wage”
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$$500 \text{ hours worked} \times \$10/\text{hr} = \$5,000$$

$$\$5,000 / 244.5 \text{ gal.} = \$20.45$$

\$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