



Control What You Can

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Even though the 2013 crop isn't planted many of the inputs were secured some time ago. Nitrogen for the 2013 crop was likely priced (and paid for) as early as March/April of 2012 before the 2012 crop was planted. Seed, fertilizer and pesticides are typically booked and paid for prior to the end of the preceding year. Securing inputs at the lowest cost is the driving force behind many of these decisions although end of year tax planning can drive inputs to be purchased prior to the end of the year.

Some input costs seem to easier to control than others. It might seem that the typical crop costs are hard to control. It is difficult to produce a crop without seed, fertilizer, and pesticides...so we try to control the costs of these inputs through early pay/early order discounts and ordering in quantities that allow for additional discounts.

Today's post reviews power and equipment costs with a thought towards managing and controlling them effectively. Table 1 reveals that power and equipment costs have increased from an average of \$103.08 per acre to \$140.61 per acre over the five-year period from 2008 to 2012 for an increase of 36%. All of the power and equipment expense categories increased over the five years with utilities and farm vehicle expenses showing the least cost increase (about 6%) and machinery depreciation showing the largest increase (88%). Fuel and Oil (up 10%), Machinery Repairs (up 24%), and Machine Hire (*including lease payments*) (up 18%) are in the middle.

Many farm inputs are consumed in the normal course of a growing season. Farm machinery has a life that far exceeds a single year but is only partially used (not completely consumed) and this annual use results in a decrease in the value of the asset that is recognized as depreciation.

In 2003, Illinois FBFM adopted the use of an economic depreciation rate to better represent the true annual 'use' of capital assets on the farm in our analysis and reporting. That economic depreciation method uses a slower rate over a longer life and excludes the use of bonus depreciation and the IRS Code Section 179 Expense Election. While economic depreciation represents a much more accurate 'use' of machinery as an expense, the per acre depreciation cost have increased over the five-year period largely due to the increase in machinery purchases over that same period. Increased farm earnings and favorable tax policy (bonus depreciation and the expense election) have likely spurred capital purchases to be made in increasing amount over the five year period.

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Table 1. Power and Equipment Expenses, 2008-2012

	2008	2009	2010	2011	2012
Utilities	\$6.59	\$6.61	\$6.86	\$6.89	\$7.05
Machinery Repairs	\$23.66	\$25.24	\$25.54	\$27.93	\$29.32
Machine Hire & Lease	\$14.12	\$14.16	\$14.88	\$16.80	\$16.73
Fuel & Oil	\$26.60	\$18.18	\$22.77	\$28.05	\$29.27
Light Vehicle	\$2.36	\$2.20	\$2.50	\$2.52	\$2.51
Machinery Depr (Economic)	\$29.75	\$36.25	\$40.23	\$47.08	\$55.73
Total Power & Equipment	\$103.08	\$102.64	\$112.78	\$129.27	\$140.61

While we may think of depreciation as an expense that is out of our control; the control of depreciation begins with the purchase of capital assets. So the control of this expense category lies in the careful planning for purchasing capital assets that matches the using up/wearing out/obsolescence of those assets and best suits the economic need of the farming operation in terms of size and horsepower.

The authors would like to acknowledge that data used in this study comes from the local Farm Business Farm Management (FBFM) Associations across the State of Illinois. Without their cooperation, information as comprehensive and accurate as this would not be available for educational purposes. FBFM, which consists of 5,700 plus farmers and 60 professional field staff, is a not-for-profit organization available to all farm operators in Illinois. FBFM staff provide counsel along with recordkeeping, farm financial management, business entity planning and income tax management. For more information, please contact the State FBFM Office located at the University of Illinois Department of Agricultural and Consumer Economics at 217.333.5511 or visit the FBFM website at www.fbfm.org.