

# FLUE-CURED TOBACCO BUDGET INFORMATION

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## Introduction

The flue-cured tobacco budget is an estimate of the costs to produce 2,500 pounds of marketable tobacco. Expenses values used in the budget are based upon projected input prices and recommended production practices. Producers are encouraged to adjust this budget using the right-hand column to reflect production practices and prices that are relevant to their own farming operations. This column is your estimated costs.

## Budget Assumptions

1. The projected average flue-cured tobacco price is estimated to be \$1.68 per pound. The price includes contract incentives.
2. Diesel fuel costs for tractor and equipment operation is projected at \$2.85 per gallon. The equivalent gallons of diesel fuel are increased by 15 percent to cover oil and lubrication cost of equipment.
3. LP Gas for curing is projected to be \$1.95 per gallon.
4. Labor cost is estimated to be \$11.44 per hour. It includes the projected adverse wage for Virginia of 8.98 and indirect labor costs of \$2.46 per hour. The indirect labor cost per hour is calculated by dividing total indirect labor costs of \$12,270 (association fees, transportation, housing, insurance, etc.) by 5,000 hours of labor (50 acres x 100 hours).
5. Crop insurance premium is based on 75 percent of actual production history at a price of \$1.60 per pound.

## Budget Interpretation

Income and expense items for the 2008 budget are broken down into four separate sections: Gross Receipts, Preharvest Variable Costs, Harvest Variable Costs, and Fixed Costs. Explanations of the items that fall into each section and the economic returns that can be calculated are detailed below.

- Gross Receipts represents per-acre cash income to the tobacco operation and is calculated by multiplying the average yield per acre by the average gross contract price per pound.
- Preharvest costs are typically cash expenses that must be paid annually to produce a crop of tobacco prior to harvest. Examples of preharvest variable costs include plants, fertilizer, chemicals, machinery fuel and repairs, and hired labor.
- Harvest costs are cash expenses getting the tobacco from the field to the buying station. Examples of harvest costs include harvest labor, curing fuel, and electricity.
- Total Variable Costs is the sum of preharvest and harvest variable costs. Variable costs are often called “cash costs” or “out-of-pocket expenses.”
- Return over variable costs is simply the gross receipts of the crop minus the total variable costs. This value essentially can be viewed as the return over “cash costs” or the return over “out-of-pocket expenses.”
- Fixed Costs are the expenses that result from the ownership of equipment and buildings. Examples of fixed costs include depreciation, property taxes, interest, and insurance on the barns and machinery.
- Other fixed cost includes a return to overhead. Overhead cost is calculated by multiplying the expenses invested (total variable costs) in the crop by 8 percent.
- The return to land, risk, and management is calculated by subtracting the total variable costs and the fixed expenses from Gross Receipts. This represents the return to the operator’s land (the equivalent of an annual land charge or rental value), time (unpaid operator/family labor), and management skills employed in producing a crop.

**Flue-cured tobacco – contact, irrigated**

Estimated Costs and Returns Per Acre: 2500 Pound Yield

					Acres 1
	Unit	Quantity / Acre	Price or Cost/Unit	Total/Acre	Your Farm
<b>1. Gross Receipts</b>					
FLUE-CURED TOBACCO	LBS	2500.00	\$1.68	\$4,200.00	
<b>Total Receipts:</b>				<b>\$4,200.00</b>	
<b>2. Preharvest Variable Costs</b>					
TOBACCO PLANTS - Flue-cured	1M	6.20	\$30.00	\$186.00	-----
Cover Crop: Rye	BU.	2.00	\$10.35	\$20.70	-----
Lime (Prorated)	TON	0.56	\$32.50	\$18.28	-----
FRow: Fertilizer (6-12-18)	CWT	6.50	\$20.13	\$130.85	-----
Sidedress: (13-0-14)	CWT	2.50	\$20.30	\$50.75	-----
Herbicides	ACRE	1.00	\$5.36	\$5.36	-----
Insecticides	ACRE	1.00	\$69.14	\$69.14	-----
Fungicides	ACRE	1.00	\$91.91	\$91.91	-----
Nematicides	ACRE	1.00	\$185.90	\$185.90	-----
Sucker Control	ACRE	1.00	\$79.20	\$79.20	-----
Federal Crop & Hail Insurance	ACRE	1.00	\$73.94	\$73.94	-----
Land Rent	ACRE	1.00	\$0.00	\$0.00	-----
Tractor Equipment: Fuel & Oil	Eq Gal	48.00	\$2.85	\$136.79	-----
Tractor & Equipment: Repairs	ACRE	1.00	\$63.17	\$63.17	-----
Tractor & Equipment: Labor	HRS	24.68	\$12.00	\$296.16	-----
Hand Production Labor	HRS	40.00	\$11.44	\$457.60	-----
Production Interest	5 Months	\$777.40	7.5%	\$58.30	-----
<b>Total Preharvest Costs</b>			<b>\$0.77 Per Pound</b>	<b>\$1,924.05</b>	-----
<b>3. Harvest Variable Costs</b>					
Tractor Equipment: Fuel & Oil	Eq Gal	14.67	\$2.85	\$41.82	-----
Tractor & Equipment: Repairs	ACRE	1.00	\$17.87	\$17.87	-----
Tractor & Equipment: Labor	HRS	9.98	\$12.00	\$119.76	-----
Hand Harvest Labor	HRS	60.00	\$11.44	\$686.40	-----
Curing Fuel (LP)	12 gal/cwt	300.00	\$1.95	\$585.00	-----
Building Ins. & Electricity	ACRE	1.00	\$107.68	\$107.68	-----
Supplies	ACRE	1.00	\$10.60	\$10.60	-----
<b>Total Harvest Costs:</b>			<b>\$0.63 Per Pound</b>	<b>\$1,569.13</b>	-----
<b>4. Total Variable Costs</b>			<b>\$1.40 Per Pound</b>	<b>\$3,493.18</b>	-----
<b>5. Return Over Total Variable Cost</b>				<b>\$706.82</b>	-----
<b>6. Machinery Fixed Costs</b>					
(Based on new equipment cost)	Acre	1.00	\$678.29	\$678.29	-----
<b>7. Other Fixed Costs</b>	Dol	\$3,493.18	<b>8.0%</b>	<b>\$279.45</b>	-----
<b>8. Total Fixed Costs</b>				\$957.74	-----
<b>9. Total Variable &amp; Fixed Costs</b>			<b>\$1.78 Per Pound</b>	<b>\$4,450.92</b>	-----
<b>10. Projected Net Returns To Land, Risk and Management:</b>				<b>-250.92</b>	-----

\* Please note: this budget is for planning purposes only.

\* Fertilizer requirements will vary with application method, and/or residual nutrient levels in the soil.

Since yield and average sale price will vary from farm to farm each year, calculated returns over variable costs with varying yield and price levels are displayed in the following table.

<b>Income above variable costs at differing yields and prices</b>						
<b>Farm Yield</b>	<b>Total Variable Costs</b>	<b>Farm Price (\$/lb)</b>				
<b>Lb.</b>	<b>Cost/Acre</b>	<b>1.58</b>	<b>1.63</b>	<b>1.68</b>	<b>1.73</b>	<b>1.78</b>
2000	3,376.18	(216.18)	(116.18)	(16.18)	83.82	183.82
2250	3,434.68	120.32	232.82	345.32	457.82	570.32
2500	3,493.18	456.82	581.82	706.82	831.82	956.82
2750	3,551.68	793.32	930.82	1,068.32	1,205.82	1,343.32
3000	3,610.18	1,129.82	1,279.82	1,429.82	1,579.82	1,729.82

This budget was developed in Microsoft Excel and is available from your local Extension office or online at: [www.vaes.org.vt.edu/SPAREC/Ftobacco.xls](http://www.vaes.org.vt.edu/SPAREC/Ftobacco.xls)

