

## Is There a COP on the Premises?

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If there is not one, there should be. Perhaps not one of those officers in a marked car patrolling the free stall barn or the heifer paddock or checking around the milking parlor or down by the silo area. But there should be a COP there. Our term “cop” is really an acronym we have borrowed from the British. It stands for “constable on patrol” or “cop” for short.

A more appropriate use of “COP” as an acronym for a dairy farmer should be for it to stand for “Cost of Production”. In today’s environment of higher costs for almost all of the inputs of a dairy farm business but especially feed, fuel, chemicals and fertilizer, someone should be patrolling Cost of Production. After all, Net Farm Income is the difference between Gross Farm Income and Cost of Production. If there is to be a profit, then income must be greater than cost of production.

By rights, the figures for calculating both income and cost of production should come from what is called an Income Statement or sometimes called a Profit and Loss Statement. The income categories for a dairy farm as given by the Kentucky Farm Business Management program are:

- Crop Sales (adjusted for inventory change)
- Market Livestock Sales (adjusted for inventory change)
- Breeding Livestock Sales (adjusted for inventory change)
- Milk Sales
- Government Programs

- Crop Insurance Proceeds
- Custom Work
- Patronage Refunds
- Other Farm Income
- Accounts Receivable Change

Added together these sources of income represent the Gross Revenues or Gross Farm Income of the dairy farm operation. Of course the single largest source of income is likely to be Milk Sales. Dividing Gross Farm Income by the average price received per hundredweight of milk produced will yield the total hundredweights equivalents of milk produced, i.e. CWT EQ. of Milk Produced. This is a crucial value.

On the Expense side we have the following categories:

- Feed (adjusted for inventory change)
- Pesticides
- Seed
- Fertilizer
- Machinery repair
- Machinery hire and lease
- Fuel and oil
- Drying
- Storage
- Building and fence repair
- Veterinary, medicine and livestock supplies
- Utilities
- Insurance
- Taxes
- Rent
- Light vehicle
- Miscellaneous expenses

- Change in accounts payable
- Change in prepaid expenses
- Hired labor
- Cash interest (adjusted for change in interest payable)
- Depreciation

Taken together these expenses less the Change in Prepaid Expenses represent Total Allocated Expenses. Thus,

Total Allocated Cost per CWT EQ. =  
 Total Allocated Expenses / CWT EQ.  
 Milk Produced.

Similarly,

Total Basic Cost = Total Allocated  
 Expenses – Hired labor – Cash interest  
 (adjusted for change in interest payable)  
 – Depreciation

and

Total Basic Cost per CWT EQ. = Total  
 Basic Cost / CWT EQ. Milk Produced

The average price per hundredweight received for the milk can then be compared to these two cost figures. The comparison to the “Basic

Cost per CWT EQ.” will reveal if all cash costs except interest and hired labor are being covered. The comparison to “Total Allocated Costs per CWT EQ.” will reveal if all cash costs plus interest and hired labor plus the non-cash cost of depreciation are being covered. In fact, the average milk price should be greater than the “Total Allocated Costs per CWT EQ.”. If this is the case, then you are earning a return on Unpaid Labor (yours and family labor if they are not paid) and Management. The Dairy COP has more than earned their pay if there are significant returns to Unpaid Labor and Management.

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**Jack McAllister**  
[amcallis@uky.edu](mailto:amcallis@uky.edu)  
 859-257-7540

**Kentucky Dairy Notes September 2008**

