

Calculating Your Cost of Production

Linda J. Cox, PhD

Phone: 956-7602

Website Address: www.ctahr.hawaii.edu/coxl

Put Dr. Linda J. Cox in Google



Calculating Your Cost of Production

- Your cost of production is your minimum selling price



Identifying Costs

- Variable costs
 - Costs that change as the level of output changes, ie water cost pr acre goes up as number of acres planted goes up
- Overhead / fixed costs
 - Costs that do not change as the level of output changes, ie total long term lease rent stays the same even if no acres are planted



Variable Costs

- Describe each step of the process
 - Example-Land preparation-labor, equipment, supplies needed multiplied by the cost of each
 - This step should identify the quantity of each input used in production
- Price each step to obtain total variable cost
 - The quantity from the previous step multiplied by the price will produce a total variable cost for each input



Overhead / Fixed Costs

- List each overhead cost for one year
- Figure how much you are working in the business-production labor is already counted
- Cost of Your “Unpaid” Labor
 - Calculating what you will need to pay yourself so you can include this in your price
- Cost of Others “Unpaid” Labor
 - Calculating what you will need to pay others, so you can include this in your price



Cost of Production

- Total Cost of Production
 - Adds up variable cost per unit and fixed costs per unit to get an minimum selling price



Getting a system to track costs

- Your tax information can be used
- Computer software can also be used
 - Calf-XL (and Beef –XL) was developed to help.
 - Quick Books and Quicken can be used also

