

= \$1.55/acre) + (\$11/hr./ 8 acre/hr. = \$1.38/acre) = \$2.93.

Custom rates can be divided into their various cost components. For example, the cost of owning the tractor makes up about 25 percent of a tillage custom rate. Another 31 percent consists of fuel and repairs for the tractor for a total of 56 percent. Labor makes up 18 percent.

	Tillage ¹	Planter	Combine
Power Unit			
Ownership	25%	19%	57%
Fuel and lub.	25	16	20
Repairs	<u>6</u>	<u>5</u>	<u>10</u>
Total	56%	40%	87%
Implement			
Ownership	17%	27%	
Repairs	<u>9</u>	<u>17</u>	
Total	26%	44%	
Labor	<u>18%</u>	<u>16%</u>	<u>13%</u>
	100%	100%	100%

¹Includes chisel plow, tandem disk, field cultivator, rotary hoe, and cultivator.

Example

A typical custom rate for tandem disking is \$9.50 per acre. With the table above, the costs can be estimated as follows:

Tractor ownership cost = \$2.38 (\$9.50 x 25%),
 Tractor fuel, lub. & repairs = \$2.95 (\$9.50 x 31%),
 Disk ownership = \$1.62 (\$9.50 x 17%),
 Disk repairs = \$.86 (\$9.50 x 9%),
 Labor = \$1.71 (\$9.50 x 18%)

The party receiving the service would pay the other party for only those components received.

Based on actual cost Depreciation

A popular method of estimating depreciation is to multiply the current market value of the machine by 8 to 10 percent. For example, a \$50,000 machine would have an estimated annual depreciation of

\$5,000. Newer machinery items may justify a higher percent while others may be lower. Income tax depreciation schedules are generally not very useful for estimating actual depreciation.

Depreciation per acre (per hour) can be estimated by dividing total depreciation by the total acres covered (hours used). For example, if the older party's machine has \$5,000 of depreciation and covers 1,000 acres, the depreciation per acre is \$5.00. If 400 of these acres are the younger party's operation, he/she owes \$2,000 (400 acres x \$5.00) to the older party.

Return on Investment

Money invested in machinery represents a cost. If the machinery is sold, the money can be invested elsewhere to earn a return, or it can be used to reduce debt thereby reducing interest expense. To estimate this cost, multiply the current machinery value by an interest rate (e.g., the current rate on CDs).

Other Costs

Other costs to include are repairs, fuel, lubrication, insurance, and housing. One percent can be added to the depreciation rate to cover insurance and housing. You may want to keep a separate listing of the repairs for each machine or allocate the total repair cost at the end of the year to each machine. Major repairs and overhauls should not be charged as a cost. These increase the value of the machine and show up as higher depreciation and return on investment in subsequent years. Fuel use can be estimated or the actual fuel use can be monitored.

Example

The older party's planter and tractor are used to plant the crops of both parties (800 ac.). The 12-row planter has a current value of \$22,200. The tractor is worth \$50,000 and covers 3,000 acres annually. Assuming a 10 percent depreciation rate, 1 percent for insurance and housing, and a 7 percent return on investment, the costs are as follows:

	<u>\$/acre</u>
Tractor—\$55,000 x 18% ÷ 3000 acres =	\$3.00
Planter—\$22,200 x 18% ÷ 800 acres =	5.00
Fuel and lub.—.6 gal/acre @ \$2.50=	1.50
Repairs (tractor)— \$3,000 ÷ 3,000 acres=	1.00
Repairs (planter)— 800 ÷ 800 acres=	1.00
Labor — \$11.00/hr. ÷ 11 acres/hr. =	<u>1.00</u>
	\$12.50

The older party charges the younger party \$12.50 per acre for all costs. If the younger party provides the fuel or the labor, these costs would not be included.

Often the younger party provides labor on more acres than he/she receives the use of machinery for. If the value of labor provided is roughly equal to the value of machinery loaned, no actual cash may change hands.

... and justice for all

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