

Checklist: What to Include in the Cost of Production

There are many different costs involved in an agriculture-related business selling a product direct to consumers. When determining *your* cost of production (COP), make sure you include *all* costs to create your product – from those involved in making the product to business-related expenses.

Variable Costs

Variable costs increase proportionally to the amount produced. Variable costs can include direct labour, ingredient/seed/feed costs, equipment repairs, fuel costs for distribution, marketing expenses and other costs.

Fixed Costs

Fixed costs are consistent costs (overhead) that do not change from month to month. These costs occur no matter how much is produced. Often they are related to time; such as monthly rent, yearly real estate taxes, annual machinery costs and depreciation.

The following links will take you to checklists for specific industries.

Food Processing cost of production

Horticulture cost of production

Meat Processing cost of production

COST OF PRODUCTION

Processed Food

Variable Expenses

- Ingredients – for food product
- Processing expenses (commercial kitchen rent, co-packer etc.)
- Labour (including paying yourself)
- Packaging costs (jars, labels, boxes etc.)
- Transportation (shipping, travel to farmers' markets etc.)
- Marketing costs (advertising, samples etc.)
- Farmers' Markets booth fees etc.
- Other

Fixed Expenses

- Insurance (liability, vehicle)
- Utility costs (heat, electricity, telephone)
- Equipment
- Office supplies
- Operating interest
- Professional fees (accounting, legal)
- Management salaries
- Other

Cost of production = Variable costs + Fixed Costs

COST OF PRODUCTION

Horticulture

Variable Expenses

Production Expenses

- Seed
- Chemical
- Fertilizer
- Packaging
- Irrigation
- Custom work
- Other

Operating Expenses

- Trucking
- Repair and Maintenance (buildings)
- Repair and Maintenance (machinery)
- Fuel, Oil and Lube
- Advertising and Marketing
- Travel
- Farmers Market Booth Fees
- Other

Labour Expenses

- Paid Labour
- Unpaid Labour

Total Variable Costs

Fixed Expenses

- Operating Interest
- Depreciation (building)
- Depreciation (machinery)
- Small Tools
- Land Taxes
- Insurance (building, vehicle, liability)
- Utilities (heat, electricity, telephone)
- Office Supplies
- Professional Fees (i.e. accounting, legal)
- Other

Total Fixed Costs

Cost of Production = variable costs + fixed costs

COST OF PRODUCTION

Meat

RAISING ANIMAL

Variable Expenses

- Feed (pasture costs, grains etc.)
- Bedding
- Veterinary costs
- Breeding costs
- Trucking
- Equipment maintenance and repair
- Building maintenance and repair
- Fuel, oil and lube
- Labour (including paying yourself)
- Other

Fixed Expenses

- Taxes
- Insurance (vehicle, building, liability)
- Utilities (heat, electricity, telephone)
- Equipment
- Equipment depreciation
- Building depreciation
- Herd depreciation
- Operating interest
- Office supplies
- Professional fees (accounting, legal)
- Management salaries
- Other

PROCESSING COSTS

Variable Expenses

- Kill costs
- Inspection
- Environmental fee
- Health fee
- Brand inspection
- Cutting and wrapping
- Transportation
- Packaging (wrapping paper, boxes)
- Marketing
- Labour

- Other

Fixed Expenses

- Operating interest
- Insurance (liability)
- Equipment (freezers)
- Office supplies
- Utilities (heat, electricity, telephone)
- Management salaries
- Professional fees (accounting, Legal)
- Other

Cost of production = Variable costs + Fixed Costs

Note: When determining Cost of Production for your total operation, only include an expense once. You will notice that some of the expenses categories are the same in the fixed expense sections. You may wish to split costs between operations (raising animal and processing) by estimating how much each operation uses i.e.) utilities – raising animal 75% and processing 25% of the total cost. This will give you a better idea as to the actual costs for each operation.