ENTERPRISE BUDGETS

Key Questions Chap. 10
1. What are enterprise budgets used for?
2. What are the typical parts of an enterprise budget?
3. How are the various types of costs and returns calculated?

Purpose: summarize all expected revenue & costs of an enterprise

- Decide to produce or not
- Compare profits among enterprises
- Set marketing goals
- Provide data for other budgets

Parts of an Enterprise Budget

- Name of the enterprise
- Budgeting unit
- Time period

Crop Enterprise Budgets

Revenue

- Expected yield x expected price
- Secondary products (straw, etc.)
- Government payments

Variable (operating) costs

- Inputs (seed, fertilizer, pesticides, etc.)
  - quantity applied x price per unit
  - assume a certain technology
- Machinery operating
  - fuel and lubrication
  - repairs
  - custom hire payments
- Labor (hours x wage rate)
- Miscellaneous (insurance, checkoffs, fees)
- Interest (preharvest costs x int.rate x prod. period)

Fixed (ownership) Costs

- Machinery ownership
  - depreciation
  - interest
  - insurance and housing
  - lease payments
- Land
  - cash rent payment
  - land market value x % rate of return
plus upkeep and property taxes
Storage bins, silos, dryers, etc.

Summary

1. Total costs = variable costs + fixed costs
2. Gross margin = gross revenue – variable costs
3. Profit (return to management) = gross revenue – total costs
   or, gross margin – fixed costs

Breakeven Prices

1. To cover Total Costs
   = (total costs - other income) / yield

2. To cover Variable Costs
   = (variable costs - other income) / yield

Special Considerations in Crop Budgets

1. If an after-harvest time selling price is used, include costs of storage, too.
2. **Double-cropping**: allocate annual fixed costs (land, machinery) between 2 crops
3. **Intercropping**: some variable costs may have to be divided, also (e.g. weeding, spraying)

Perennial Crops

1. May have separate budgets for establishment period, development period, and production period.
2. May have to allocate establishment costs over the years in production.

Livestock Enterprise Budgets

1. **Enterprise**
   - Species, phase, technology
2. **Unit**
   - One head
   - One litter
   - One cow/calf unit
3. **Budget period**
   - Annual
   - Production cycle

Gross Revenue

1. No. head x weight x price per lb.
Adjust no. sold for death loss, replacement breeding stock
Include cull breeding stock
Include livestock products

Farrow – finish Example
8.8 pigs weaned per litter
- .6 pigs for death loss (7%)
- .4 pigs for replacement gilts
= 7.8 pigs sold per litter
.38 cull sows sold per litter
  (.40 replacement - .02 death loss)

Variable Costs
- Purchase cost of feeder livestock
  - plus interest on $ invested
- Feed: quantity fed x price
  - use market price for homegrown feeds
- Veterinary and health
- Fuel, repairs, utilities
- Marketing, breeding fees, misc.
- Labor: hours per unit x cost per hour
- Interest on variable costs (one-half)

Fixed Costs
- Land (pasture may be included in feed costs)
- Equipment and buildings
  - Depreciation
  - Interest
  - Taxes and insurance
- Breeding livestock
  - Interest and insurance
  - Sire replacement

Cost of Breeding Livestock

A. Raise Replacements
- Include cost of raising replacements
- Include cull sales
- Reduce number of offspring to sell
B. Buy replacements
- Include purchase cost of female
Include cull sales
Assume all offspring are sold

Analyzing Livestock Budgets
- Gross Margin = Gross Revenue minus Variable Costs
- Profit = Gross Revenue minus Total Costs
- Cost per unit = total costs / units produced
- Breakeven selling price = (total costs minus other income) / units to sell