



Agriculture and Natural Resources  
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NOTE to editor: This is one in a series of articles produced by University of Wisconsin-Extension agents and specialists to address farming through difficult times. More articles can be found on the Extension Responds website at:  
[www.uwex.edu/ces/ag/farmingindifficulttimes.html](http://www.uwex.edu/ces/ag/farmingindifficulttimes.html)

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## Managing through Difficult Times: Budgets and Budgeting – Crop and Livestock Enterprise Budgets

Madison, Wis. – With farm income down and input prices high, even the most seasoned of farm managers are being stressed. This is also when producers are asking what they can do to minimize costs and maximize income to improve margins.

At least three types or levels of budgets are useful in the farm business. A farm manager will find a combination of all three – not necessarily at the same time – to be useful since each one has different characteristics. These three types of budgets are the total farm budget, the enterprise budget and the partial budget.

An enterprise budget is an estimate of the costs and returns associated with the production of a product or products referred to as an enterprise. An enterprise, or profit center, is a distinct part of the farm business that can be analyzed separately. An enterprise is usually based on some production input unit - an acre of land for most crop enterprise budgets, or an individual animal unit for livestock enterprise budgets. Enterprise budgets are an important tool for planning and for ongoing farm financial management. Crop and livestock budgets can be used to estimate profitability, project cash flows, provide a basis for credit, and assist in farm planning.

Cost and return estimates are projections for some future time period, such as the coming calendar year or crop year. Without good, historical production and financial records, developing enterprise budgets can be time consuming and frustrating. Historical records are a

useful starting point for estimating future costs. Whether you have good records or not, you may be surprised at some of the cost changes you discover and budget for in your enterprise budgets. You may also be surprised at the net returns above variable and total costs. If you do not have the financial and production records necessary to develop an enterprise budget, you can begin by using budgets from other sources, such as the University of Wisconsin-Extension, which can provide information for planning and decision making. The Enterprise Budgets section of the UW-Extension Farm Team web site (<http://www.uwex.edu/ces/farmteam/index.cfm>) has many examples of field crop, pasture, commercial vegetable, fresh market vegetable, dairy, and livestock budgets. If you use this method, you will need to adjust the budget to reflect your specific situation.

Budgets generally include variable operating costs, fixed costs, and expected production returns. Variable costs are those that vary with output within a production period. Examples include seed, fertilizer, chemicals, purchased feed, supplements, veterinary costs and medicines, fuel, repairs, and labor. Other terms used to describe variable costs include cash costs (or expenses), direct costs, and out-of-pocket costs. Fixed costs typically include building costs, depreciation, taxes, interest on investment, land charges, and insurance. A management fee may be included as a fixed cost. These costs are considered to be fixed because they generally remain the same within a production period and do not vary with the level of output. Indirect and overhead costs are other terms used to describe fixed costs.

Total costs are calculated by adding variable, fixed costs and opportunity costs if not already accounted for. Ideally, you want to earn a profit above total costs every year. This is not always possible, since income received can be less than the total costs of production. Should you continue to produce under these circumstances? The answer may be yes if: (1) you are covering variable costs of production, and (2) it is a short-run condition. It is economical to continue production in the short run as long as income is higher than the variable costs of production. In other words, in the short run, you must receive a price that generates a return at least equal to variable costs. In the long run, however, market price and yield need to be high enough to cover total costs of production, including fixed costs. Otherwise, the enterprise will not be financially sound over a period of several years.

To access more information and/or tools to help analyze your situation, link to the Extension Responds web page at: [www.uwex.edu/ces/ag/farmingindifficulttimes.html](http://www.uwex.edu/ces/ag/farmingindifficulttimes.html)

For assistance in making these tough decisions, contact your UW-Extension county agent, your Farm Business and Production Management Instructor in the Technical College or the DATCP Farm Center at 1-800-942-2474.

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