

TECHNICAL INFORMATION NOTE

FOR IN-SERVICE USE

FARM MANAGEMENT & BUDGETING

INTRODUCTION

Today's farmer needs a variety of assistance with management decisions. The most indispensable aspect of farm management is records and recordkeeping, and the vital tool in this aspect is a budget.



BUDGETS

Budgets may be very simple or extremely detailed, they may be manually generated or computer generated. A budget is a projected set of estimates focusing on three basic steps.

1. A budget is a *plan* used to carry out *proposed activities*.
2. A budget is an *actual record* which can be used to *analyze* the *differences* between projected estimates and actual performance.
3. A budget is a *forecasting tool* which shows the range of differences between projected estimates and actual performance. These ranges can then be analyzed to *evaluate* the *performance* of the planned activities and lay the foundation for future operations.¹

¹:Budgets by Richard Sansing, ORMS Today - February 1996, Online Edition @ <http://lionhrtpub.com/orms/orms-2-96/budgetside.html>.

TYPES OF BUDGETS²

There are four basic types of farm budgets. Even though all budgets include income and expenses from a farm operation, exact income sources and expense items noted in the budget determine the exact budget type.

1. Whole-farm budget. A whole-farm budget includes, for a *single year*, all *income and expenses* for a given farm.
2. Cash-flow budget. A cash-flow budget is usually constructed on a *monthly* basis for 1 year. It shows *cash receipts/expenditures* and displays the timing of monthly cash surpluses/deficits.
3. Partial budget. A partial budget *estimates changes* in income/expenses that would occur if proposed activities were implemented.
4. Enterprise budget. An enterprise budget contains all of the income/expenses associated with a *single* enterprise.

IMPORTANCE³

Keeping farm management records, developing planning budgets, examining actual expense budgets, and planning for the future are paramount to the sustainability of a farm enterprise. Six areas to consider and give credibility to record keeping activities are:

1. Facilitates better management of the farm or ranch.
 - a) Greater profits can be realized by fine-tuning or deleting weak or unprofitable practices/enterprises.
 - b) Highlights income/expenses incurred in each section of a farm.
 - c) Records the performance history of the farm, its financial position and net worth.
 - d) Aids in decisionmaking of current operations I.E., amounts of fertilizer, feed, seed, etc.
2. Provides information for tax reports and preparation.
 - a) Helps recordkeeping to enable accurate preparation of income taxes.
 - b) Helps recordkeeping in the payment of self-employment and employer-employee social security taxes.
3. Facilitates settlements between landlords and tenants.
 - a) Helps tenant-landlord relationships operate smoother and with accuracy and efficiency.
 - b) Helps partnership relationships operate smoother and with accuracy and efficiency.

² Enterprise Budgeting, 1989 Yearbook of Agriculture, Chapter 5.

³ Farm Management, Rodney Clouser and John Holt, Florida Cooperative Extension service, December 1992.

4. Provides a basis for planning future operations.
 - a) Helps develop budgets and expected income/costs of different enterprises.
 - b) Helps answer questions like: "where can I cut my costs?", or "what enterprise offers the best possibility for expansion?"
 - c) Helps provide the important tool of the best information available when making decisions.
5. Aids in obtaining credit.
 - a) Helps provide accurate, tangible information to lenders to establish the basis for loans or credit.
 - b) Indicates a well-managed business planning for the future.
6. Provides information for Government Programs.
 - a) Farmers need records of historic acreage and yields to claim allotments, cost-share moneys, or prove eligibility for other program assistance.
 - b) Helps establish compliance with laws relating to the Environmental Protection Agency, Occupational Safety and Health Administrator, Department of Health, Education and Welfare, etc.

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