

This blank partial budget form has been included for you to use when analyzing a change in an enterprise on your farm or ranch operation.



PARTIAL BUDGETING

Proposed Change			
Positive Effects	Value	Negative Effects	Value
Additional Income		Reduced Income	
Total Additional Income		Total Reduced Income	
Reduced Costs		Additional Costs	
Total Reduced Costs		Total Additional Costs	
Total Additional Income & Reduced Costs		Total Reduced Income & Additional Costs	
Change in Net Income: (Total Additional Income and Reduced Costs) - (Total Reduced Income and Additional Costs)			
Social, Non-Economic and Other Factors			

For more information on Partial Budgeting, contact your local NRCS office.

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Though a complete or whole-farm budget is essential for operating a successful farming or ranching operation, it is not always necessary to modify this detailed budget every time you consider a change in your operation. As a farm/ranch manager, you may only need or want to analyze those costs and returns which change as a result of a proposed business adjustment. An analysis of this sort can be accomplished in an organized manner by using a Partial Budget. This tool can effectively analyze various management decisions such as changing enterprises, adopting new technology, buying or leasing machinery, hiring custom work, or even modifying current production practices.

WHAT IS PARTIAL BUDGETING?

Partial budget analysis is best adapted to small changes that you are considering on your farm or ranch. Keep in mind that partial budgeting analyzes the impacts of some change in profit in your enterprise and does not determine if the alternative being looked at is the most desirable for your overall operation. Prior analysis should be conducted to assure that the farm or ranch operation being evaluated is profitable; if it is not, you may have more important decisions to make.

SECTIONS OF A PARTIAL BUDGET

PROPOSED CHANGE

It is imperative that you as a manager have a clear understanding of exactly what you are evaluating. The more alternatives that you analyze, the better the chance of finding the one that best fits your operation; however, each of these alternatives should be analyzed individually. Clarity at this point will allow for easier completion of other budget sections.

ADDITIONAL INCOME

A proposed change may bring about additional income if an enterprise is added or expanded or if output in an existing enterprise is increased. Keep in mind, with some alternatives the increased income will not be realized immediately—take this lag into consideration and look at how it will affect your operation's cash flow. If your proposed change is replacing soybeans with corn, the additional income would be any income generated from corn production.

REDUCED COSTS

Proposed changes can result in reduced costs to your agricultural operation. These costs can either be *fixed* (machinery depreciation, and some taxes, insurance, or repairs) or *variable* (most inputs such as fertilizer, seed, fuel, etc.). Labor costs can be a tricky, as the change may require less labor, but your labor supply is fixed (i.e. have full-time salaried help), so carefully evaluate how labor fits into the proposed change. If you substitute corn for soybeans, the reduced costs with this proposed change would include all expenses associated with producing soybeans.

*The total of additional income and reduced costs has the same positive effect on overall net income.

REDUCED INCOME

A proposed change in your farm/ranch operation may reduce your total farm income because of changes in production practices-either by eliminating enterprises or reducing output. If your proposed change eliminates soybeans from your operation and increases the acres of corn production, the reduced income from the soybean enterprise would be recorded in this section of the partial budget.

ADDITIONAL COSTS

Proposed changes can result in increased costs to your operation. Remember that these costs can be either *fixed* or *variable*. If adding a new crop or livestock enterprise to your operation, under this heading you could include variable costs such as seed, fertilizer, fuel, maintenance, rent, hired labor, feed, veterinary services and medicine as appropriate. You may also have increased fixed costs due to investment in land, machinery, equipment, and/or livestock. If these assets have a useful life of more than one year, you may want to prorate the investment over their useful lives.

*The total of reduced income and additional costs has the same negative effect on overall net income.

SOCIAL, NON-ECONOMIC AND OTHER FACTORS

Non-economic considerations, although not necessarily related to costs and returns, need to be taken into account when evaluating alternatives. These factors generally include social aspects such as having more or less labor on the farm/ranch, having an increase/decrease in leisure time, or needing increased management or specialized knowledge. You should also take into account future long-term plans for your operation such as are, you planning to pass this operation onto a child or family member, are you planning to sell the farm to an "outside buyer" when you retire, when are you hoping to retire, are you wanting to expand or reduce the size of your operation? Many of these ideas relate to quality of life issues for both yourself and your community and therefore are difficult to assign monetary values for, requiring you to make decisions based on personal values and ideas.

USING A PARTIAL BUDGET

A decision based on partial budget analysis is only as good as the information used to create it. You can be sure that you are providing yourself a solid and realistic analysis by using accurate and realistic estimates on price savings and expenses by using the following tips:

- Review previous years' actual expenses and revenues
- Use the Internet to research expenses associated with new enterprises
- Contact several suppliers and ask for prices on inputs you are not familiar with
- Contact local extension educators for relevant crop budgets
- Talk with other producers who are currently using an alternative that you are considering

Discussing with other producers and farm/ranch managers who have already adopted methods similar to those which you are considering can gain you a great deal of knowledge. This knowledge can include but is not limited to finding out what they would have liked to do differently, expected timelines for implementation, problems that they encountered what types of successes they achieved.

EXAMPLE

Farmer John believes that wetter years are ahead, so he is considering a change in his cropping plan. John is looking at converting 100 acres of soybeans into corn. He has determined that all the machinery needed to produce either corn or soybeans is already present on his farm. John then decided to contact his commodity broker to check on predictions for corn and soybean prices. After discussing the markets with his broker, John decided that corn prices are going to be more favorable than soybean prices next year. In order to complete an accurate partial budget for this alternative, John needs to determine the expected yields, costs, prices and labor requirements for both enterprises.

John estimates that he will be able to produce 140 bushels of corn/acre, which he hopes to sell for \$2.50/bushel. His expected cash costs for inputs such as seed, fertilizer, water, herbicide, and equipment usage are \$185/acre. He also decides after doing some research that it will require approximately 5 hours of labor/acre to raise a corn crop. This labor will have to be provided by John's one full-time employee at a cost of \$15/hour. John then looks at last year's records to determine the costs and returns in soybean production. He feels he can produce 40 bushels of soybeans/acre and hopes to sell at \$6.00/bushel. His expected expenses for soybean inputs total approximately \$125/acre. He feels that it will require about 4 hours of labor/acre to produce a soybean crop and that labor would cost him \$15/hour.

Some other things John is taking into consideration are, will the harvest of corn be complete by the time the family is scheduled to take their annual vacation in mid-November? And, will the increased labor requirement of corn production bring about a need for hiring additional help?

Proposed Change			
<i>Should I substitute 100 Acres of Corn Production for 100 Acres of Soybean Production</i>			
Positive Effects	Value	Negative Effects	Value
Additional Income		Reduced Income	
100 Acres of Corn		100 Acres of Soybeans	
x 140 Bushels/Acres		x 40 Bushels/Acre	
x \$2.50/Bushel	\$35,000	x \$6.00/Bushel	\$ 24,000
Total Additional Income	\$35,000	Total Reduced Income	\$ 24,000
Reduced Costs		Additional Costs	
100 Acres of Soybeans		100 Acres of Corn	
x \$125 Cost/Acre	\$12,500	x \$185 Cost/Acre	\$ 18,500
100 Acres of Soybeans		100 Acres of Corn	
x 4 Hours/Acres x \$15/hour	\$6,000	x 5 Hours/Acre x \$15/Hour	\$ 7,500
Total Reduced Costs	\$ 18,500	Total Additional Costs	\$ 26,000
Total Additional Income & Reduced Costs	\$ 53,500	Total Reduced Income & Additional Costs	\$ 50,000
Change in Net Income:			
(Total Additional Income and Reduced Costs) - (Total Reduced Income and Additional Costs)			\$ 3,500
Social, Non-Economic and Other Factors			
-Will the added labor required for corn production require me to find part-time hired help or will I be able to find time for the additional labor with current staff?			
-Will I have adequate water supply to irrigate this corn crop that requires significant moisture?			
-Will it require a longer harvest and the need to delay the annual family vacation in early November			
-Do I have the knowledge of corn to take on this type of cropping rotation?			

As you can see this alternative is going to be profitable for John to implement.