Enterprise Budgeting

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Enterprise Budgeting
The Place for Enterprise Budgeting

Accounting & Analysis
Control Function of Management

Today

Budgeting
Planning Function of Management

- Enterprise Budgets
  - Operations, Whole-farm Budget
  - Partial Budget
  - Cash Flow Budget
  - Capital Budgets

- Financial Statements
  - Balance Sheet
  - Income Statement
  - St. of Cash Flows & OE

- Analysis
  - Ratios
  - DuPont
  - Benchmarking
What is an Enterprise Budget

- Planning/Estimating revenues, costs, and profits for a single enterprise
  - Dairy
  - Feeding steers
  - Cash Corn
  - Corn Silage
  - Feeding operation
Why Enterprise Budgeting

• Identify profitable versus breakeven or losing enterprises
  – *If it is not making me money then ...*

• Know the sensitivity to changes in price, production, and other variables

• As a control tool – Variance Analysis
Why Enterprise Budgeting

• **Forces the Planning Function of Management**
  - Plan for Profits → Work Your Plan
Watch Out for the Potholes!!!
Pits and Potholes

- Simplicity versus Flexibility versus Usefulness
- Average does not describe me!
- What is the enterprise?
Pits and Potholes

- Every budget template has an assumed structure of the business
  - Purchased versus raised feed
  - How replacements are handled
  - Inclusion or not of unpaid labor and management
- Accounting versus Economic Analysis
- How Fixed costs are determined
- Non-Enterprise income and expenses
Milk Cost of Production?  
A Challenge of Method and Math

- Total milk sold = 34,768 cwt
- Total Farm Expenses = $662,214

What if $104,188 of this is SB and beef enterprise expenses?

- What is the total cost of production ($/cwt)?

$662,214 / 34,768 cwt = $19.05

Is This Right?
# The Challenge of Calculating Costs of Production - Milk

<table>
<thead>
<tr>
<th>D=Denominator N=Numerator</th>
<th>True Milk COP</th>
<th>Per Unit Sales</th>
<th>Residual Claimant</th>
<th>Unit EQ (CWTEQ)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Milk Sold, cwt</td>
<td>34,768</td>
<td>D</td>
<td>D</td>
<td>D</td>
</tr>
<tr>
<td>Mailbox Price</td>
<td>16.29</td>
<td></td>
<td></td>
<td>D</td>
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<tr>
<td>Milk Income</td>
<td>566,371</td>
<td></td>
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<tr>
<td>Other Income</td>
<td>108,373</td>
<td>-N</td>
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<tr>
<td>Total Income</td>
<td>674,744</td>
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<tr>
<td>Milk COP</td>
<td>558,026</td>
<td>N</td>
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<tr>
<td>Other COP</td>
<td>104,188</td>
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</tr>
<tr>
<td>Total COP</td>
<td>662,214</td>
<td>N</td>
<td>N</td>
<td>N/EQ</td>
</tr>
<tr>
<td>$/CWT Costs Of Production</td>
<td>16.05</td>
<td>19.05</td>
<td>15.93</td>
<td>15.99</td>
</tr>
</tbody>
</table>

Unit EQ Production = Total Income/Price: \( \frac{674,744}{16.29} = 41,421 \) CWTEQ