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TOPIC: Partial Budgeting

Setting: An Extension sponsored session on farm management being conducted for local dairymen.

What is a partial budget and when should I use One?

Answer: A partial budget is a simple budgeting procedure that can be used to estimate the effect of a change on the costs and returns of the existing farm operation. Only the costs and returns associated with the proposed change need to be considered. Appropriate times that a partial budget could be used would include adding to an existing enterprise, introducing a new enterprise, or purchasing a new machine.

What factors should I consider in the process of partial budgeting?

1. Additional receipts

2. Reduced costs

3. Additional costs

4. Reduced receipts

- that are incurred because of the proposed change.

How do I know when to use a partial or a complete new farm budget?

Answer: A new farm budget should be completed if the entire farm organization will be affected. This would be in a situation where a wheat farmer is thinking of converting to row crops for example? The wheat farmer would use a partial budget if he were deciding whether to buy a new combine or keep his old one.

PARTIAL BUDGET ANALYSIS

CHANGE IN NET INCOME FROM SELLING 1 HOLSTEIN COW WITHOUT REPLACING

ADDED INCOME:

INTEREST ON CAPITAL RELEASED FROM COW SALES (1 HEAD @ $450 @ 10% INTEREST)		$45.00 PER YEAR

REDUCED EXPENSES:

CONCENTRATES (2 TON @ $140)	$280.00	
(@ $)	_____	
ROUGHAGES (6 TON @ $ 65)	390.00	
(@ $)	_____	
PASTURE (@ $)	_____	
MINERALS AND SALT	4.00	
VETERINARY AND MEDICINES	15.00	
BREEDING FEES	10.00	
PROPERTY TAXES	3.00	
HAULING AND MARKETING ~~1,000~~ 10,000 #	58.50	
LABOR (____HRS. @ $_____)	_____	ONLY ON LARGER SALES
OPERATING CAPITAL INTEREST (_____%)	_____	SMALL ITEM
OTHER VARIABLE EXPENSES	5.00	
SUBTOTAL		$810.50

TOTAL ADDED INCOME AND REDUCED EXPENSES $855.50

ADDED EXPENSES:

NONE	$ 0

REDUCED INCOME:

CALF SALES (1 HEAD @ $15.00)	$ 15.00	
MILK SALES (100 CWT. @ $8.00 SURPLUS PRICE)	$800.00	
SUBTOTAL		$815.00
TOTAL ADDED EXPENSES AND REDUCED INCOME		$815.00
CHANGE IN NET FARM INCOME		$+40.50

PARTIAL BUDGET WORKSHEET

for Estimating the likely changes in annual cost and returns from:

(describe changes here) automatic teller machine (treats off)

		(Round to even $)
A.	BENEFICIAL EFFECTS (that increase income)	
	1. Additional Returns:	
	2. Reduced Costs:	10,000
	(A) TOTAL OF ADDED RETURNS AND REDUCED COSTS	10,035
B.	DETRIMENTAL EFFECTS (that reduce income)	(Round to even $)
	3. Added Costs:	
	Added (direct) cash expenses per year	2000 300 200 repairs, elect.
	Added (Prorated annual ownership cost due to buying new capital items (DIRTI)	1500 40 insurance
	4. Reduced Returns:	35
	(B) TOTAL OF ADDED COSTS AND REDUCED RETURNS	4075
	(A) - (B) ESTIMATED CHANGE IN ANNUAL INCOME	+ 5925