

of crop rotations are common in your area and what products would sell well for your chosen marketing outlet?

Keep in mind that a budget should be used only as a guideline (or starting point). No budget will represent any individual farm very well because of soil, climate, and market differences. The same process would occur if you were a producer in Washington looking at growing processing tomatoes. First you must determine the scale and production system, find the closest geographic budgets, and then adapt to your specific location.

While complexity varies among budgets, most budgets have common components. The first component is crop inputs such as fertilizer, pesticides, and seed. The costs usually depict local production recommendations and prices. Check with a variety of suppliers to determine costs.

Labor, machinery, and land also are common components. However, each of these may be handled quite differently. Labor is normally budgeted based on an hourly rate common to your area for similar work completed. Some budgets use multiple rates depending upon whether labor is manual or used to handle equipment. It is assumed that handling equipment requires more skill and therefore requires a higher hourly rate to obtain an adequate supply of laborers to finish the required tasks. If benefits are given, the costs associated with those benefits should be included in the hourly rate. Unemployment and workmen's compensation also should be included. Remember to include labor charges regardless of whether it is supplied by you or your family or purchased from the outside labor market. To remain profitable, you need to get an economic return for the labor you provide. Check with local growers and Extension personnel to make sure the amount of labor and wage rate you use for your budgets are normal given your existing or proposed production system.

Machinery is handled quite differently from budget to budget. The ways vary by complexity, with none

of the ways being right or wrong. The important thing is that machinery usage is accounted for in the budget. In complex budgets, machinery costs are segmented into variable (or operating) expenses and fixed (or overhead) expenses. It is important to review the budgets carefully to understand what assumptions were made to determine these costs. For example, a particular field operation per acre cost may have assumed an annual use of 40 hours for an implement. However, if the actual usage of the implement was 20 hours or 80 hours instead of the assumed 40, the cost per acre would be substantially different. Other budgets may simply use a custom hire charge common to your area. The custom hire charge would cover the cost of the machinery and often the cost of the machine operator. If custom charges are used, then changes to labor hours should be made to eliminate the possibility of double counting. Regardless of the method used to allocate machinery expenses to the enterprise budget, make sure you understand how it was accomplished particularly as you compare one budget to another.

Most budgets insert a cost for the land used in production at its common rental value or a percent return to land value. If land similar to yours is renting for \$200 per acre in the area you are farming, a rental charge of \$200 should be used for budgeting. Because the land you are using can be farmed by you or rented out to someone else for the common rental rate, this practice allocates a charge to the land asset.

Some budgets include an overhead category to cover expenses associated with buildings, insurance, and interest charges, among other items. Again, it is important to understand what expenses are included and how they were calculated in order to adapt the published budget to fit your use.

Summary

Enterprise budgets can be used for a variety of management decisions including pricing, developing a product mix, and changing production practices. The key to using budgets effectively is to develop them as accurately as possible by reflecting what is

going on in your existing or proposed production system. Once your production scale and production system is determined, it is often easiest to begin by adapting an existing published budget. The key to adapting the budget is to understand what assumptions were made in the budget development and make changes to fit your situation. Please contact your land grant university or Extension personnel to see what local budgets have been developed for your area.

References/Notes

The following related publications from the author can be found from Iowa State University Extension:

Chase, C. "Using enterprise budgets to make decisions." <http://www.extension.iastate.edu/agdm/crops/html/a1-19.html>

Chase, C. "Pricing for Profit." <http://www.extension.iastate.edu/agdm/wholefarm/html/c1-55.html>

Chase, C. "Iowa vegetable production budgets." <http://www.extension.iastate.edu/agdm/crops/html/a1-17.html>

An example of a Michigan State Budget is Dartt, B. et al. "Cost of Processing Tomato Production in Monroe County, Michigan" located at https://www.msu.edu/~blackj/Staff_Paper_2002-41.pdf.

Also note Roy Black has listed a variety of production budgets at:

<https://www.msu.edu/~blackj/>

University of California – A library of production budgets developed by the Agriculture and Resource Economics Department can be found at <http://cost-studies.ucdavis.edu/>.

Again, production budgets should be available from your land grant university. Please check with your local research and Extension personnel to see what crop budgets are available.

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