

Fact Sheet # 17 Enterprise Budgets



Know Where Your Profits Come From

Whether you are a beginning or established farmer, it is a good idea to establish enterprise budgets for all of your ventures to compare their profitability. An enterprise budget is a detailed account of revenues and expenditures for a particular crop or product. For example, a farm that produces lettuce greens, tomatoes, fresh cut flowers, and free-range poultry consists of four different enterprises that have different revenues and costs. By creating four enterprise budgets, a farm operator can discover which products are bringing in the most profit, and sometimes can reveal that the farm is incurring a loss by producing a product.

Variable Costs

Variable costs are out-of-pocket expenses that fluctuate based on production volume, including inputs such as seeds, fertilizer, fuel, repairs, and labor.

Fixed Costs

Fixed costs are costs associated with infrastructure and machinery, and they don't vary from season-to-season with changing production levels. These include the cost of owning or renting land, property taxes, housing, hazard insurance, and depreciation. Because these often involve a large initial investment, these costs are often prorated over a number of years. Depreciation is the loss of an asset's value as it ages.

Calculating Depreciation

1. Cost of the asset		\$6,000
2. Estimated salvage value (how much do you expect to recover when you dispose of, sell, or trade in the asset?)	-	\$500
	[depreciable value]	= \$5,500
3. Estimated useful life (in years, months, working hours, or units produced)	÷	10 years
4. Divide total depreciation by useful life*	=	
	[depreciation expense]	\$550 per year

*Consider obsolescence when calculating useful life. For example, if the machine is capable of producing units for 20 years, but will become obsolete after 10, the useful life should be 10 years.

Joint Costs

Any farm operating more than one enterprise has joint costs. These are usually fixed costs that are common to multiple ventures, such as depreciation of planting equipment that is used for more than one crop.

Revenues and Returns

Revenues, or receipts, are calculated by multiplying estimated yield by the projected price. Once you have figures for total gross revenue, fixed costs, and variable costs, you can figure out if your enterprises are profitable.

Online Enterprise Budget Resources

There is a wealth of enterprise budgets for various crops, livestock and other products online. These templates can be extremely helpful in getting you started with enterprise budgeting. Many of them include estimated costs and prices, which can be useful if you are starting a new and unfamiliar enterprise. However, it is critical to adjust the information for your situation as much as possible. A budget is only as good as its assumptions, and cost assumptions can vary immensely based on geographic region, access to markets, and production methods.

[Agricultural Marketing Resource Center](#) has enterprise budgeting tools for a wide variety of crops and livestock production.

[Cornell University's Northeast Beginning Farmers Project](#) provides information on calculating profitability and example enterprise budgets

North Carolina State University Cooperative Extension Service's [collection](#) of enterprise budgets for fruits, herbs, livestock, nuts, ornamentals, seafood, and vegetables.

[Pennsylvania State Extension](#) provides blank templates for a typical [crop enterprise budget](#) and a typical [livestock enterprise budget](#).

Iowa State University provides [enterprise budgets](#) for vegetables, field crops, aquaculture, forestry, fruits and berries, and livestock.

University of Vermont [Enterprise Budget Fact Sheet](#)

New Entry Sustainable Farming Project's [Poultry Profit Calculator](#) will help you compare the costs of processing your own birds in New Entry's mobile poultry processing unit versus an off-farm slaughter facility.

Ohio State University provides [enterprise budgets](#) for corn, soybean, wheat, alfalfa, and livestock.