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WILL IT PAY?

... Partial Budgeting May Provide the Way



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Partial Budgeting May Provide the Way

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Will it pay? This question is asked everyday about many farming practices. One method that can be used to determine this is budgeting.

Two types of budgets can be used -- the partial budget and the whole farm budget.

Partial budgeting is estimating the cost and returns on an adjustment in an enterprise or the addition of an enterprise.

A whole farm budget is used to estimate all crops, livestock, producing methods, costs and returns for the farm as a whole. Partial budgeting only is discussed in this publication.

Determining if an Adjustment Pays

The partial budget can be used to determine if some adjustment or addition to an enterprise or operation pays.

For example, it may be important to know if creep feeding calves, feeding hogs, increasing poultry numbers, adding a particular crop or buying a piece of machinery will pay.

The following example shows the partial budget in action. A blank form for working a partial budget is provided at the back of the publication to be used in budgeting through an alternative.

A number of things must be considered and some decisions made before budgeting the creep feeding problem.

FACTORS TO CONSIDER

These are as follows:

1. Is creep feeding possible? Consider some things such as other livestock, grassland, water facilities and necessary equipment.
2. Are the calves of such grade as to consider the stocker calf market or the slaughter calf market?
3. At what time of the year will the calves be born?
4. Is there a market for fat slaughter calves or feeder calves?
5. What is the available feed supply?

After these factors are considered then start budgeting to determine if creep feeding pays.

In this particular problem, a farm family wants to determine if they should creep feed or if they should sell the calves as they have in the past. They are now following the practice of selling the calves without any supplemental feed.

Cost and return information found in Texas Agricultural Experiment Station Bulletin 840, "Fitting Beef Cattle Into Central Texas Farming" is used as a guide to estimate future added cost and added returns for creep feeding.

WEIGHT GAINED FROM CREEP FEEDING

In the past, this farm family has been selling 17 calves per year at an average of 401 pounds without creep feed. The study indicates that calves on creep feed gained 106 pounds. These same figures are used as a guide to estimate gain for this particular operation. This gain will vary and should be considered on each individual operation.

CONSIDERING DIFFERENCES IN PRICES

Prices of creep fed calves and non-creep fed calves must be considered. Since these prices vary from year to year, the difference in prices as indicated by the study will be used as a guide to determine the estimated future income. This margin was about 1.5 cents per pound. Using the 1.5 cents per pound difference, it is estimated that creep fed calves will bring 20 cents per pound and non-creep fed calves will bring 18.5 cents per pound.

The 106 pound gain and the 1 1/2 cent difference in prices will help to estimate the future returns.

CONSIDERING ADDITIONAL COST

The next step is to consider the cost. Bulletin 840 indicates the following costs which are used as a guide to estimate future costs. In this problem the grain is bought for the 17 calves. These extra added costs are:

	<u>Pounds per calf</u>	<u>No. calves</u>	<u>Total pounds</u>	<u>Cost</u>	<u>Total cost</u>
Feed					
Whole oats	220	17	3740	2.25	84.15
Ground corn	170	17	2890	2.	57.80
Cottonseed meal	30	17	510	3.4	17.34
Transportation & labor					<u>30.00</u>
					\$182.29

Scrap lumber was used to build the creep; therefore, no extra cost was involved in equipment.

The above cost may be different on another operation. Interest, lumber, extra marketing costs and depreciation are cost items that need to be considered in many operations.

USING THE PARTIAL BUDGET METHOD

The next step is to compare the added costs and added returns on creep fed calves at 20¢ per pound and returns on non-creep fed calves at 18.50¢ per pound.

In comparing the two method, multiply the one and one-half cents extra price for creep fed calves times the original 401 pounds to get the added return for the margin and then multiply the 20¢ times the additional 106 pound weight. These two items will give the added return. The following form shows how this can be done.

PARTIAL BUDGET WORK SHEET

Selling 507 lb. calves for 20¢ rather than 401 lb. calves for 18.50¢

	<u>VALUE</u>
Estimated income	
Items: Added income for	
17 calves:	
401 lb. x 17 = 6,817 x 1.50¢ (return on margin)	\$102.25
106 lb. x 17 = 1,802 x 20¢ (return on added wt.)	<u>360.40</u>
Total income	\$462.65
<hr/>	
Estimated expenses	<u>COST</u>
FEED	
Whole oats -	
220 x 17 = 3,740 x 2.25¢	\$ 84.15
Ground corn -	
170 x 17 = 2,890 x 2¢	57.80
Cottonseed meal -	
30 x 17 = 510 x 3.4¢	17.34
Transportation and labor	<u>30.00</u>
Total expenses	\$189.29
<hr/>	
Estimated profit or loss -	\$273.36 PROFIT

SUMMARY

In summary, it is estimated that the future returns from creep feeding would add \$273.36. Of course, the following items are important and must be considered in every operation:

Estimated price to be received for calves

Estimated prices of various grains and other feeds

Weight gained

Equipment and other factors discussed on page two.

This does not mean that every beef cattle breeder should creep feed, but that each situation should be carefully studied.

The next page is to be used in estimating costs and returns on creep feeding or some other enterprise that may need adjusting.

ESTIMATED COSTS	ESTIMATED COSTS
Estimated expenses	Estimated expenses
Items:	Items:
Total expenses	Total expenses
Estimated profit or loss	Estimated profit or loss

This worksheet is to be used in figuring some alternatives.

Family name _____

PARTIAL BUDGET WORK SHEET

Plan A		Plan B	
Estimated income	<u>VALUE</u>	Estimated income	<u>VALUE</u>
Items:		Items:	
Total income	_____	Total income	_____
<hr/>		<hr/>	
Estimated expenses	<u>COST</u>	Estimated expenses	<u>COST</u>
Items:		Items:	
Total expenses	_____	Total expenses	_____
<u>Estimated profit or loss</u>		<u>Estimated profit or loss</u>	

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PARTIAL BUDGET WORK SHEET

Plan A		Plan B	
Estimated income	<u>VALUE</u>	Estimated income	<u>VALUE</u>
Items:		Items:	
Total income	_____	Total income	_____
<hr/>		<hr/>	
Estimated expenses	<u>COST</u>	Estimated expenses	<u>COST</u>
Items:		Items:	
Total expenses	_____	Total expenses	_____
Estimated profit or loss	_____	Estimated profit or loss	_____