



“You have to recognize the importance of budgeting,” says MU’s Scott Brown. “The more time you spend looking at your budget, the more you can recognize the importance of it.”

PHOTO BY SHAUNA HERMEL

nothing in regards to budgeting.”

The University of Missouri provides example beef cattle budgets at <http://beef.missouri.edu/business/budgets/index.htm>.

Schroeder says there is no specific way to go about “correctly” building a budget, and he reminds ranchers that budgets are not permanent or irreversible.

“A budget is a guide,” he says. “It is meant to be a planning device rather than a method of constraint.”

The steps to building a budget will differ amongst producers and their individual operations. Schroeder says the first step should always be to look at anticipated major expenditures and revenues.

“You need to think through your annual costs,” Johnson says. “Include everything you can think of in a production year.”

Brown suggests breaking down expenses into two categories: variable and fixed costs. Variable costs are those subject to change each year — feed and labor costs, for example. Fixed costs are all the unchanging expenses each year — machinery or equipment costs.

Schroeder reminds producers budgets are more than just a cash flow. Budgets need to quantify the costs of inputs, but also look toward the amount of each input that will be allocated in the year.

Don’t forget about cost items for which you don’t write a check,

such as land or time, he says. “People often forget about time and how much it’s worth. It gets glossed over, but it’s an important element to include in a budget.”

Johnson recommends starting to analyze your business in January and progressing through the 12-month period when looking at costs and inputs. Pay attention to any activities unique to

Learning to create one of the most essential financial tools is not as hard as you might think.

by Megan Silveira, editorial intern

Creating a budget might not be the most exciting activity in managing a farm or ranch. It is, however, a necessary step in the process of running an effective business.

Ted Schroeder, agricultural economist at Kansas State University, says the benefits of budgeting — estimating expenses and income for a given time — far outweigh the costs.

“If you’re going to be able to manage anything, you have to be able to measure it,” Schroeder says. “You have to itemize, document and understand your costs and your returns.”

Budgets are a part of being a responsible business owner or manager, agrees Mark Johnson, purebred beef herd supervisor at

Oklahoma State University (OSU). “Budgets permit you to maintain your finances and are a part of good farm management. Long-term, you want to be as prepared as possible.”

Johnson says the need for a well-thought-out budget is not unique to the cattle industry. It is needed in any good, sustainable business.

“At the end of the day, profitability is the key to survival in any operation,” says Scott Brown, assistant extension professor in the division of social sciences at the University of Missouri (MU). “Budgets are the yardstick we have to use to measure success in an operation.”

Budgets are critical for short-term decision-making and long-term actions, says Schroeder. Budgets provide quantifiable assistance to what otherwise would be decisions made on “straight intuition.”

The main purpose of a budget is to help monitor profitability, he says. Without monitoring profits, well-thought-out business decisions cannot be made.

Building process

The financial side of running a business often intimidates ranchers. Brown says the key is to not be afraid to start something.

“Unfortunately, there’s no one-stop shop for building a budget,” Brown says. “But you need to be doing something rather than

	Full Calfing	Spring Calfing	Year Farm
ESTIMATED INCOME/COW			
Steer calf sales: 300 lbs. @ \$11.00/cwt. x 80% x 1/2			\$167.00
Heifer calf sales: 300 lbs. @ \$10.00/cwt. x 80% x 1/2	\$240.00		\$240.00
500 lbs. @ \$10.00/cwt. x 80% x 1/2		\$240.00	\$240.00
Calf cow sales: 1200 lbs. @ \$10.00/cwt. x 10%			\$120.00
200 lbs. @ \$10.00/cwt. x 10%			\$20.00
Total Income	\$240.00	\$240.00	\$567.00
ESTIMATED VARIABLE COSTS/COW			
Purchase cost of cow	\$17.50	\$17.50	
Hay and forage	105.00	105.00	
Gain	21.87	10.93	
Protein and minerals	32.07	22.81	
Labor	42.00	42.00	
Veterinary, drugs, and supplies	35.00	35.00	
Marketing	24.00	24.00	
Utilities and all necessary costs	188.18	188.18	
Livestock facility repairs	8.00	8.00	
Cow replacement (0.15% of herd)	21.20	21.20	
Bull cost or AI charge	33.00	33.00	
Professional fees (legal, accounting, etc.)	1.00	1.00	
Miscellaneous	6.00	6.00	
Operating interest	14.74	17.86	
Total Variable Costs	\$664.34	\$664.34	
ESTIMATED FIXED COSTS/COW			
Depreciation on facilities and equipment	\$8.40	\$8.40	
Interest on breeding stock	391.92	391.92	
Interest on facilities and equipment	7.18	7.18	
Interest on breeding stock & capital items	31.81	31.81	
Total Fixed Costs	\$439.31	\$439.31	
Total Costs	\$1,103.65	\$1,103.65	
INCOME OVER VARIABLE COSTS	(463.65)	(463.65)	
INCOME OVER TOTAL COSTS	(536.65)	(536.65)	

Prepared by Joe Koenigs and Zachary Ercus, MU Regional Extension Specialists, and Joe Hines, Extension Economist

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Left: MU provides some examples of beef cattle budgets at <http://beef.missouri.edu/business/budgets/index.htm>.

the operation, such as planned sales or travel to scheduled events.

For the OSU purebred cattle operation, the annual sale in April is such an event. Johnson says it is crucial to plan ahead for costs that are easy to forget about in the grand scheme, such as advertising.

Johnson says there is more to a successful cattle operation than sales and shows. He listed items such as feed, fertilizer, vaccinations and artificial insemination certificates as a few of the various expenses he includes in the budget for OSU's operation.

While breaking down all of this information might sound overwhelming, Brown says it is essential to running a business. Detailed budgets allow one to "compare the financial and physical sides of an operation."

Facing adversity

"Production agriculture is inherently risky," Schroeder says. "We know that going in, but we need to be prepared for what we know our operations cannot stand."

Schroeder says budgets help ranchers prepare for the future and create a reserve to help "weather the storm."

Johnson says unexpected problems can and will arise. These challenges can include weather, health issues, feed shortages or faulty machinery.

There's no need to be intimidated by the unexpected, says Brown. Budgets should be designed to be flexible to help producers during those tough times.

Johnson recommends setting aside money from the beginning and creating a "miscellaneous category" in the budget to help prepare for those unexpected events.

"No matter how well you plan it out, something can always go wrong," Johnson says. "You have to be financially prepared for that."

Schroeder says good budgets are updated frequently. While he

Find example beef cattle budgets online:

South Dakota State University beef cattle budgets — <http://jigrow.org/livestock/profit-tips/beef-cattle-budgets/>
University of Missouri beef cattle budgets — <http://beef.missouri.edu/business/budgets/index.htm>

prefers monthly updates, budgets can be managed on a quarterly or annual basis.

The changes made when updating a budget might be minute, but Johnson says they make a big difference in the operation as a whole.

Updating their budgets can help ranchers become more familiar with their businesses as a whole, Schroeder says. "The act of the budgeting exercise is where people learn. They learn beyond the budget and are able to realize things they weren't cognizant of before."

Every time a budget is updated, Johnson says, there is an opportunity to learn more about what works for the particular program.

"I developed OSU's budget about 20 years ago," Johnson says. "Experience is a great teacher."

Schroeder agrees, saying the longer an individual has been around a working operation and its budget, the more comfortable they will be with making financial decisions.

"You have to recognize the importance of budgeting," Brown says. "The more time you spend looking at your budget, the more you can recognize the importance of it."

While budgets might seem tedious, as a business owner, it is up to you to take the necessary steps to keep your business running smoothly and profitably.

"Too often, we are just happy to go out and produce calves," Brown says. "Unfortunately, we don't want to take the time to track our finances, but it takes both to be successful." |

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