



INTRODUCTION

Partial budgets are projected costs and returns associated with some change in the business operation. Partial budgeting estimates the economic effects of adjustments in the farm or ranch business. With partial budgeting, you assume many aspects of the business are constant. You are interested only in the parts of the business that will change because of the adjustment. The basis of the concept is to analyze the impact of a proposed change in an already developed plan.

EXAMPLES

Many changes that do not require a complete reorganization are possible on a farm or ranch. You can use resources in a variety of ways. For example, you can vary use depending on changes in input or product prices. Partial budgets are also useful in evaluating changes such as:

- Expanding an enterprise.
- Beginning alternative enterprises.
- Changing production practices.
- Buying new equipment or machinery.

ESTIMATING COST AND RETURN

Partial budgeting is based on the principle that a change in the organization of the business will have one or more of the following effects:

Positive effects

- The change will eliminate or reduce some costs. Reduced costs are those costs that will not occur if the change is made. Any costs that do not change will not be included in the partial budget.
- The change will cause some additional returns to be received. Additional returns are those returns that will occur if the change is made. Any returns that do not change will not be included in the partial budget.

Negative effects

- The change will cause some additional costs to be incurred. Additional costs are those that will occur if the change takes place.
- The change will eliminate or reduce some returns. Reduced returns are those returns that will not occur if the change is made.

Net Change in Income

The net change between positive and negative economic effects is an estimate of the net effect of making the proposed change. A positive net change in income indicates a potential increase in income due to the change. A negative net change in income indicates a potential reduction in income if the change is made. Remember, the net change is the difference between the original alternative and the proposed change it is never an indication of overall profit of either alternative. Each of the four categories of cost and return is used to estimate the effect of a proposed change.

COMPONENTS OF A PARTIAL BUDGET

The typical partial budget usually consists of a seven-part plan. The seven parts are:

Positive and Negative Effects
1. Additional costs
2. Reduced returns
3. Total additional costs and reduced returns
4. Additional returns
5. Reduced costs
6. Total additional returns and reduced costs
7. Net change in income (subtract line 3 from line 6)

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