ENTERPRISE BUDGETS

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What is an Enterprise?

- A specific aspect of a business
- Each crop produced or each product sold
- Example: Grocery store enterprises
  - *Vegetables*
  - *Fruits*
  - *Dairy, etc.*

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What is an Enterprise?

- Dairy farm enterprises:
  - *Cows*
  - *Corn silage*
  - *Alfalfa hay*
  - *Pasture, etc.*
- Lawn care business enterprises:
  - *Mowing*
  - *Installation*
  - *Maintenance of lawns (spraying, etc.)*

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Why Do We Care?

- Income statements show the profitability for the entire business
  - *But you can't easily see where you are making or losing money from an income statement*
- Enterprise budgets show the profitability of each section of the business
- Enterprise budgets allow breakeven analysis

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Enterprise Budgets

- Show the profitability of one specific aspect of the business
- Main sections:
  - *Revenues*
  - *Operating (Variable) Costs*
  - *Gross Margin (Return Above Operating Costs)*
  - *Overhead (Fixed) Costs*
  - *Net Income (Return Above Total Costs)*

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Enterprise Budgets

- Usually constructed on a per-unit basis
  - *Per acre*
  - *Per head (or per herd)*
  - *Per greenhouse*
  - *Per lawn (or per square foot)*
  - *Use the unit that makes it easiest for you*

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Revenue Section

- Shows all products associated with that enterprise
  - *Quantity produced & sold*
  - *Selling price or value of each product*
  - *Revenue for each product*
    - Revenue = Quantity x Selling Price
- Total Revenue (Gross Revenues)
  - *Total value of the enterprise's products*

Operating (Variable) Expenses

- Shows all of the operating inputs used in that enterprise
  - *Amount of each input used*
  - *Cost/unit of each input*
  - *Total cost for each input*
- Total Operating Expenses
  - *Total of all the operating expenses*
  - *Referred to as "short run cost of production)*

Gross Margin

- aka Return Above Operating Costs
- Gross Margin
  - *Total Revenues – Total Operating Costs*
  - *Shows how much money is left over after you pay all of your operating expenses*
    - Your short term profits
- You want Gross Margin > $0
  - *If it's less than $0, you are losing money for every unit you produce*

Overhead (Fixed) Expenses

- Shows all of the overhead costs for the enterprise
  - *Depreciation, rent, property taxes*
  - *Insurance, interest on term loans*
- Total Overhead Expenses
  - *Sum of all overhead expenses*
- Total Expenses
  - *Total Operating Expenses + Total Overhead Expenses*

Net Income

- aka Return Above Total Costs
  - *Long term profits*
- Net Income = Total Revenues – Total Expenses
- Shows how much money is left after you pay all of your expenses for the enterprise

Return Above Operating Costs (RAOC)

- How much money is left after your total operating costs
- Also called "Gross Margin"
- RAOC= Total Revenues- Total Operating Costs
- Always want RAOC to be greater than 0
  - *Means that you have money available above your variable costs*

Return above Total Costs (RATC)

- Represents the "long run or long term profits" of your enterprise
- Shows how much money is left over after you pay all of the operating and overhead costs
- Also called "bottom line"
- RATC= Total Revenues- Total Costs OR

  RATC= Total Revenues-Total Operating Costs-Total Overhead Costs

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RATC, cont.

- RATC should be greater than 0
  - *Generating enough revenue to pay ALL costs*
  - *Earning enough to replace equipment over time*
- RATC is less than 0
  - *Make changes to your enterprise*
  - *If not- GET OUT*

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How to increase RAOC and RATC

- Reduce costs of production without hurting the level of production or quality of product
  - *Either fixed or variable costs*
- Identify 5 largest expenses and determine how one of them can be reduced through,
  - *Production methods*
  - *Production schedules*
  - *Changes in business practices*
  - *Lowering your fixed costs*
- Examine pricing strategy
  - *Can you increase the price without "scaring away" the customer?*

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