University of Nebraska - Lincoln

DigitalCommons@University of Nebraska - Lincoln

Center for Agricultural Profitability | Agricultural Economics Department

11-18-2024

Budgeting Family Living into Cost of Production: Why It Matters for Farm and Ranch Families

Anastasia Meyer
University of Nebraska-Lincoln, ameyer71@unl.edu

Follow this and additional works at: https://digitalcommons.unl.edu/cap

Part of the Agribusiness Commons, and the Agricultural Economics Commons

Meyer, Anastasia, "Budgeting Family Living into Cost of Production: Why It Matters for Farm and Ranch Families" (2024). *Center for Agricultural Profitability*. 59.
https://digitalcommons.unl.edu/cap/59

This Article is brought to you for free and open access by the Agricultural Economics Department at DigitalCommons@University of Nebraska - Lincoln. It has been accepted for inclusion in Center for Agricultural Profitability by an authorized administrator of DigitalCommons@University of Nebraska - Lincoln.

CENTER FOR AGRICULTURAL PROFITABILITY
Institute of Agriculture and Natural Resources

Budgeting Family Living into Cost of Production: Why It Matters for Farm and Ranch Families

Anastasia Meyer
Extension Educator, Agricultural Economist
Department of Agricultural Economics, University of Nebraska-Lincoln

Nov. 18, 2024
CAP Series 24-1102

In farming or ranching, budgeting is more than just managing costs for seeds, feed, equipment, or labor. For farm and ranch families, the unique structure of finances often means family living expenses are often interwoven with the business. Budgeting family living expenses into cost of production is an essential practice that can significantly impact the financial stability of the family, especially during challenging economic periods when the operation's income may fluctuate. By including family living expenses in the cost of production, farm and ranch families can gain a more realistic view of their business's profitability, make more informed financial decisions, and work toward long-term sustainability.

Why Include Family Living Expenses in Farm and Ranch Budgets?

Farm and ranch income often doesn't come with a steady paycheck. Instead, it fluctuates based on factors like market prices, weather conditions, input costs, and global events that are largely outside of the producer's control. When income is unpredictable, budgeting becomes crucial for both the operation and the family depending on it. For many producers, the family's well-being is intrinsically tied to the operation's financial health. Integrating family living expenses into farm and ranch budgets provides a clear view of the full financial picture, helps avoid cash flow issues, and prevents unintentional overspending.

By budgeting family living expenses into the cost of production, farm and ranch families can answer a fundamental question: Can the farm or ranch not only sustain itself but also support the family living on it? If an operation's cost of production, including family expenses, is higher than projected revenue, it becomes clear that adjustments are needed, whether through expense cuts, increased production, or additional income sources.

Steps for Including Family Living Expenses in Cost of Production

Adding family living expenses to production costs requires intentional planning and accurate tracking. Below are some practical steps to help families integrate household expenses into the overall farm budget.

1. Track Family Living Expenses

The first step is to determine what the family spends on an average monthly and annual basis. Family living expenses may include:

- Housing and utilities
- Groceries and dining

- Healthcare costs, including insurance premiums and medical bills
- Childcare and Education expenses
- Transportation costs
- Entertainment and discretionary spending

Tracking these expenses over several months can help establish an average monthly spending figure. By understanding where money goes, it becomes easier to identify which expenses are essential and which may be reduced or adjusted if needed.

2. Differentiate Fixed and Variable Expenses

Not all expenses are the same. When budgeting, it's important to separate fixed and variable costs. Fixed expenses remain fairly stable each month, like mortgage payments, insurance, property taxes on the home, and subscriptions. Variable expenses, such as utilities, groceries, dining out, gifts, or travel, change month to month. By categorizing expenses, families can prioritize spending and find areas for potential cuts, particularly when income is limited. Remember, variable expenses aren't the only place where reductions can be made. Often, fixed expenses can be renegotiated, cut back, or eliminated.

3. Calculate Total Monthly and Annual Living Costs

Once tracked and categorized, families should calculate their total monthly and annual living expenses. This figure represents the household's baseline cost of living and will be added to the business's operating budget. Knowing this number is critical in understanding the full financial needs of the household, especially when faced with farm income fluctuations.

4. Incorporate Family Living Costs into Farm Cost of Production

With a clear understanding of family living expenses, the next step is to incorporate these costs into the farm's overall cost of production. This process involves:

- Allocating living expenses proportionally across different farm operations, based on their contribution to overall income.
- Adjusting per-unit production costs (e.g., cost per bushel or per head of livestock) to reflect the additional family expenses.

For instance, if family living expenses are $40,000 per year, and the operation's annual production includes 100,000 bushels of corn, the family's living expenses would add $0.40 per bushel to the cost of production.

Adjusting Budgets to Accommodate Family Living Expenses

Including family living expenses in the farm or ranch budget may reveal that the cost of production exceeds income, especially during periods of low prices or high input costs. In this case, families need to consider how to adjust budgets to maintain the family's financial stability. Here are some strategies:

1. Reduce Non-Essential Expenses

Both the farm or ranch and the household likely have non-essential expenses that can be reduced. For the farm, this might mean delaying equipment upgrades or cutting back on discretionary input costs. For family expenses, adjustments might include temporarily reducing dining or entertainment budgets.

However, farm and ranch families should be realistic: household expenses are generally small compared to business costs, so most budget cuts will also need to come from the farm or ranch operation.

2. Prioritize Cash Flow Management

Good cash flow management is vital to ensure that both farm and family expenses are met without incurring excessive debt. Farmers can time input purchases to spread costs throughout the year or use savings to smooth out periods of low income. Adjusting expenses to fit cash flow patterns helps prevent cash shortages and makes it easier to manage both farm and family finances.

3. Diversify Income Streams

If meeting family living expenses through farm income alone proves challenging, families might explore options for diversifying income. Off-farm work, agritourism, and value-added products can provide additional revenue streams to support both the farm and family. Diversifying income not only supports the budget but can also serve as a buffer against market volatility and income fluctuations.

Benefits of Budgeting Family Living into Cost of Production

Taking a holistic approach to budgeting that includes family living expenses provides numerous benefits for farm families:

- **Realistic Income Expectations:** Including family living costs in the operation's cost structure offers a more accurate view of net returns, helping to set realistic financial goals and expectations.
- **Long-Term Financial Stability:** By aligning farm/ranch and family budgets, families can better prepare for economic challenges, manage debt responsibly, and work toward a sustainable operation.
- **Improved Decision-Making:** Having a clear understanding of all expenses allows farm and ranch families to make informed decisions, including when to invest in expansion, cut costs, or diversify income.

Conclusion

Budgeting family living expenses into the cost of production is an essential step for farm and ranch families aiming for long-term financial health. When family living expenses are accounted for within the farm's financial structure, families gain a realistic view of cost of production and net returns, making it easier to plan and adjust during economic fluctuations. This approach ensures that the farm or ranch can not only sustain its operations but also support the family, creating a pathway for greater resilience, stability, and success across generations.

Cite this work:

Meyer, A. "Budgeting Family Living into Cost of Production: Why It Matters for Farm and Ranch Families" *CAP Series* 24-1102, Center for Agricultural Profitability, University of Nebraska-Lincoln, Nov. 18, 2024. DOI: 10.32873/unl.dc.cap053.