

Financial Planning for Equine Enthusiasts

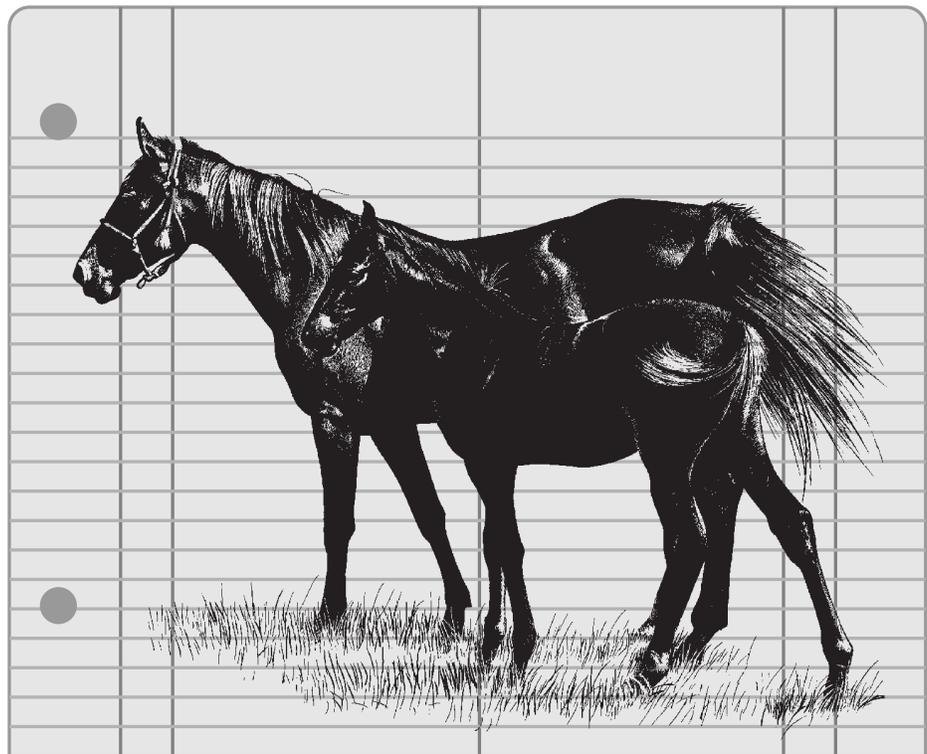
Enterprise and Partial Budgets

Two primary functions are involved in good financial management. The first function, discussed in this fact sheet, is planning. The second function, control, is discussed in Fact Sheet 658 *Control Aids for Equine Enthusiasts: Balance Sheets, Income and Expense Statements, and Cash-Flow Budgets*.

Most horsepeople observe and record every physical aspect of their equine activity, with entries ranging from foaling and breeding dates and training sessions to placing in competition, sales, and stallion bookings. However, many of them are not nearly as interested or adept at keeping track of the financial aspects of their operations. Regardless of the size of the operation, every equine owner and breeder needs a financial recordkeeping system.

Like records related to physical activities, financial records are tools to

help you guide the operation of the business intelligently. Each operation or activity should be treated as a business transaction, whether the objective is to maximize profits or minimize losses. All owners and breeders are managers, and management decisions should always be made with the objectives,



needs, and constraints of the operation clearly defined and understood.

The recordkeeping process originates from the daily financial documents of the operation. These documents include equine-related sales slips, invoices, bills, and, most important, checks written to and from you. Most owners and breeders are quite familiar with these documents; the challenge is to organize them for interpretative and analytical purposes.

Any general discussion of recordkeeping must address two points. The first is regularity and timeliness. Financial statements should be prepared and analyzed regularly. For tax purposes, year-end statements are the most critical, but analysis on at least a quarterly basis is recommended. Such analysis can help you identify problems before they become unmanageable and recognize profit-making or cost-minimizing opportunities before they are lost.

The second point is the establishment of benchmarks or financial reference points. One of the easiest and most useful ways to determine trends and identify problems or opportunities is simply to compare current financial figures with similar figures from the past.

The first place to look when buying a horse is at the animal's feet: No foot, no horse! The first thing to do in recordkeeping is to establish a budget: No financial plan, no future!

Budgeting is a process used by individuals and businesses to project costs and returns. Budgeting may be used to evaluate proposed changes in the operation or the profitability of a new venture, or to analyze routine financial matters. Budgets are generally divided into two types: 1) enterprise or complete budgets and 2) partial budgets. Each of these types can be further divided into two groups: 1) proposed and 2) actual. Making proposed and actual figures match is easier said than done, but the financial soundness of your operation depends on this exercise. More to the point, financial soundness is based on the information you acquire from the analysis and how you react to this information.

The list of items in Worksheet 1 shows what types of data are needed to start the budgeting process. As the note at the top of

the table states, equine operations are unique. Unlike homogeneous agricultural commodities such as chickens, soybeans, and wheat, horses are not generic. Each equine budget must be personalized to reflect the particular operation.

The Enterprise Budget

The enterprise budget lists all costs and receipts related to equine activity. This budget is used in the initial phases of financial planning and later to analyze a situation in which proposed adjustments will affect all or most of your costs or receipts. The figures used in the sample budget (Table 1) assume an average Maryland operation with a horse used for noncompetitive recreational purposes. The existing financial data in the table will not match that of your operation; thus there is a column for "Your value or costs."

Various formats are used for enterprise budgets, but they generally contain sections on income, variable expenses, and fixed expenses. The budget format used in Table 1 primarily addresses costs, because most horses, even those in professional competition, generate very little, if any income. Should your horse operation produce an income (as in the case of the boarding operation discussed next), it is easy to include the income and reflect the figures on the "Income above variable costs" line.

In the cost sections, equine owners and breeders should pay special attention to variable costs. These costs—as their name implies—vary and you have a degree of control over them. Variable costs include such items as hay, mixed feed, and farrier and veterinary expenses. These costs vary directly according to the number of horses, level of management, and the quality and amount of inputs used.

Fixed costs can be significant in an equine operation, particularly if you have horses with a high purchase price or you have new or expansive facilities (barns, show arenas, fencing, etc.) While these are major costs, they do not occur on a routine basis and their benefits are enjoyed over many years. Fixed costs should allow for depreciation of the original costs over the useful life of the item (the horse, barn, or fence), and an interest charge accounting for the time value

Worksheet 1. Personalized Data

The following expense sheet can help you prepare an annual budget for your equine operation. As all operations are unique, some questions may not apply to you. Fill in zero (0) for questions that do not apply to you.

Item	Amount
Services and supplies	
1. Annual hay costs	
1a. Annual number of hay bales used _____	
1b. Cost per bale \$ _____	
1c. Annual cost of hay (1a x 1b)	\$ _____
2. Annual mixed feed costs	
2a. Annual amount of mixed feed used _____ hundredweight	
2b. Cost per hundredweight \$ _____	
2c. Annual cost of mixed feed (2a x 2b)	_____
3. Annual cost of salt, supplements, minerals	_____
4. Annual cost of manure removal	_____
5. Annual bedding costs	
5a. Annual number of bedding units used _____	
5b. Cost per unit of bedding \$ _____	
5c. Annual cost of bedding (5a x 5b)	_____
6. Annual cost of veterinary services	_____
7. Annual cost of farrier services	_____
8. Annual costs of training and lessons	_____
9. Annual show costs	_____
10. Annual cost of barn and riding supplies	_____
11. Annual cost of barn and fence repairs	_____
12. Annual hired labor costs	
12a. Annual amount of hired labor _____ hours	
12b. Cost per hour \$ _____	
12c. Annual cost of hired labor (12a x 12b)	_____
13. Annual payment for all property leased	_____
14. Annual cost of all machinery leased	_____
15. Annual cost of equipment maintenance	_____
16. Annual cost of lime, fertilizer, and seed	_____
17. Annual cost of water and electricity	_____
18. Annual cost of trash removal	_____
19. Annual cost of telephones	_____
20. Annual cost of advertising	_____
21. Annual cost of accounting services	_____
22. Annual cost of legal services	_____
23. Annual cost of insurance	_____
24. Annual cost of office supplies	_____
25. Annual miscellaneous expenses	_____
Additional Data	
26. Annual number of equine stabled _____ head	
27. Annual farm vehicle mileage _____ miles	
28. Applicable rate of interest _____ %	

Table 1. Enterprise Budget^a

Item	Unit	Cost per unit	Quantity per year	Value or cost	Your value or cost ^b
A. Gross income					
Awards or prizes	\$	\$ _____	_____	\$ _____	\$ _____
B. Variable costs					
Hay	ton	120.00	3.50	420.00	_____
Mixed feeds	ton	200.00	.75	150.00	_____
Salt, minerals, and supplements	\$			50.00	_____
Bedding	\$	120.00	2.50	300.00	_____
Veterinary services and medicine	\$	300.00	1.00	300.00	_____
Farrier	\$	40.00	6.00	240.00	_____
Equipment (barn and tack)	\$	250.00	1.00	250.00	_____
Equipment maintenance	\$	250.00	1.00	250.00	_____
Barn and fence repair	\$	200.00	1.00	200.00	_____
Labor	hour	5.00	180.00	900.00	_____
Pasture lime, fertilizer, and seed	acre	50.00	1.50	75.00	_____
Hauling	mile	.25	500.00	125.00	_____
Utilities	\$	360.00	1.00	360.00	_____
Trash and manure disposal	\$	300.00	1.00	300.00	_____
Insurance	\$	200.00	1.00	200.00	_____
Miscellaneous expenses	\$	180.00	1.00	180.00	_____
Interest on operating capital	\$	.10	4,300.00 ^c	<u>430.00</u>	_____
			Total variable costs	\$4,730.00	_____
C. Income above variable costs (A - B)					_____
D. Fixed costs					
Interest on livestock and capital	\$	.10	1,000.00	100.00	_____
Interest on other equipment	\$	.10	500.00	50.00	_____
Depreciation on horse	\$			150.00	_____
Depreciation on equipment	\$			<u>100.00</u>	_____
			Total fixed costs	\$400.00	_____
E. Total costs (B + D)				<u>\$5,130.00</u>	_____

^a Example assumes one mature recreational horse maintained in Maryland on a private farm (not boarded).

^b When developing your budget, divide each column into "proposed" and "actual" figures.

^c Total of other variable costs in the "Value or cost" column.

Table 2. Annual Enterprise Budget for a Boarding and Training Stable in Maryland

Item	Unit	Average number of horses	Cost per unit	Quantity per year	Value or cost	Your value or cost
A. Gross income						
Boarding						
Pasture	head	10	\$105.00/month		\$12,600.00	_____
Stalls	head	20	\$255.00/month	240	61,200.00	_____
Training	head	8	\$300.00/month	3,600	28,800.00	_____
Lessons	hour		25.00	500	12,500.00	_____
Hauling	mile		50.00	4,000	<u>2,000.00</u>	_____
Total income					\$117,100.00	_____

of money should be included. However, unless you have extremely expensive horses or facilities, fixed costs are not as important to the budget as variable costs. For example, maintenance costs, which are variable, generally exceed the purchase cost of a horse, a fixed cost.

Table 2 is an example of the income section of an annual enterprise budget, showing the projected income for a boarding and training stable. Again, the numbers used are an average of data from selected Maryland stables and are presented as an example. Table 2 assumes: the operation boards 10 pasture and 20 stall horses, trains 8 horses, gives 500 hours of lessons, and hauls horses 4,000 miles for clients. The \$117,100 total income in this example may look big, but when the expenses of the operation are considered, the bottom line shrinks substantially. However, the figures in Table 2 are not the issue; the format is.

Just as in Table 1, the income items must be differentiated so that details about the financial components can be individually analyzed. Various kinds of equine operations will have different line item entries under both income and expense. Examples of these entries are the expense of stud fees for a mare owner, the income from stud fees for a stal-

lion owner, expenses for licensing fees for various types of owners and trainers, and the income from purses for affected parties.

The Partial Budget

Once an enterprise budget has been formulated, preparing a partial budget is a sound analytical process. Partial budgets concentrate on changes in costs or revenues that occur as a result of a new or altered practice. These budgets can be viewed as



shortcuts because they eliminate the need for redetermining the costs and revenues that are not affected by the altered practice.

An example of a partial budget is offered in Table 3. This table assumes that a change from ownership of a noncompetitive recreational horse to a competitive horse is being considered. With this change, variable costs for mixed feeds, supplements, farrier, bedding, and hauling are expected to increase. Variable costs for show expenses and training or lessons are added and, because interest costs are based on the amount of operating capital required, interest costs are expected to increase also. Under fixed costs, the assumption is made that the horse cost \$5,000, compared with \$1,000 for a noncompetitive horse. Additionally, because more hauling will be done, the tow vehicle and trailer will wear

out faster. Thus, related fixed costs are increased.

Using partial budgeting in this example, it can be quickly determined that the anticipated change will cost an additional \$4,530 (\$9,660 - \$5,130) annually. You should prepare a separate partial budget for any anticipated change in your equine activities. Effective planning is a continuous process; for budgeting to be useful, changes must be incorporated.

Conclusion

This material has been presented to help familiarize the reader with the basics of financial recordkeeping. A sound recordkeeping system is necessary in today's equine industry, and the development of a set of budgets will undoubtedly benefit you and your horses.

Table 3. Partial Budget^a

Item	Unit	Cost per unit	Quantity per year	Value or cost	Your value or cost ^b
A. Gross income					
Awards or prizes	\$	\$ _____	_____	\$ _____	\$ _____
B. Variable costs					
Hay	ton	120.00	3.50	420.00	_____
Mixed feeds	ton	240.00	2.00	480.00	_____
Salt, minerals, and supplements	\$			100.00	_____
Bedding	\$	120.00	4.50	540.00	_____
Veterinary services and medicine	\$	300.00	1.00	300.00	_____
Farrier	\$	40.00	9.00	360.00	_____
Training and lessons	month	100.00	12.00	1,200.00	_____
Show expenses	\$	500.00	1.00	500.00	_____
Equipment (barn and tack)	\$	250.00	1.00	250.00	_____
Equipment maintenance	\$	250.00	1.00	250.00	_____
Barn and fence repair	\$	200.00	1.00	200.00	_____
Labor	hour	5.00	180.00	900.00	_____
Pasture lime, fertilizer, and seed	acre	50.00	1.50	75.00	_____
Hauling	mile	.25	1,000.00	250.00	_____
Lodging	\$	100.00	5.00	500.00	_____
Utilities	\$	360.00	1.00	360.00	_____
Trash and manure disposal	\$	300.00	1.00	300.00	_____
Insurance	\$	200.00	1.00	200.00	_____
Miscellaneous expenses	\$	315.00	1.00	315.00	_____
Interest on operating capital	\$	.10	7,500.00 ^c	<u>750.00</u>	_____
				Total variable costs \$8,250.00	_____
C. Income above variable costs (A - B)					_____
D. Fixed costs					
Interest on livestock and capital	\$	.10	5,500.00	500.00	_____
Interest on other equipment	\$	.10	500.00	50.00	_____
Depreciation on horse	\$			700.00	_____
Depreciation on equipment	\$			<u>160.00</u>	_____
				Total fixed costs \$1,410.00	_____
E. Total costs (B + D)				<u>\$9,660.00</u>	_____

^a Example assumes one competitive horse, using the enterprise budget in Table 1.

^b When developing your budget, divide each column into "proposed" and "actual" figures.

^c Total of other variable costs in the "Value or cost" column.

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by

Malcolm Comer, Jr.
Extension Livestock Economist and Marketing Specialist
Central Maryland Research and Education Center

James M. Downes
Regional Farm Management Specialist (retired)
Wye Research and Education Center

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