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Lectures 13 & 14

Farm Planning and Budgeting



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Farm planning

Farm planning refers to setting the objectives and actions to be taken in directing or controlling the organization of farm business and it precedes all other managerial functions on the farm to achieve the desired results. It is deciding in advance, the production management problems viz., what to produce, how to produce, when to produce; financial management problems viz., how to borrow, how much to borrow, when to borrow, where to borrow, and marketing management problems viz., where to buy and sell, when to buy and sell, how to buy and sell, etc



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Definition

Thus, farm planning may be defined as the process of making decisions regarding the organization and operation of a farm business so that it results in a continuous maximization of net returns of a farm business.



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Importance of farm planning to farmer

It helps the farmers in the following manner:

1. Choose different farm activities suited to the given farm conditions.
2. Look into the future and decide on suitable course of action.
3. Select appropriate enterprise combinations that results in the better use of resources.
4. Timing various jobs and operations for smooth conduct of operations without competition.



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Objective of farm planning

The ultimate objective of farm planning is the improvement in the living standards of the farmers and immediate goal is to maximize the net incomes from the farming operations through improved resource planning. Other secondary objectives of farm planning could be secure incomes, minimizing risk or minimizing labour requirements.



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Cobb-Douglas PF:

Types of farm plans

Farm plans are categorized into two sub-groups viz., simple farm plan and complete farm plan. Simple farm plan implies planning for minor changes or for a particular enterprise. Complete farm planning envisages more number of changes in the existing organization. It is adopted for the farm as a whole.



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Characteristics of good farm plan

- The following are the characteristics of a good farm plan:
 - 1. Plans should aim at efficient utilization of all the available resources on the farm.
 - 2. Plans should be flexible i.e., they should be adaptable to changing environmental conditions.
 - 3. Farm plans should be simple and easily understood.
 - 4. Considering the available resources, farm plans should ensure balanced production



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Limitations of farm planning

- Farm planning is considered time consuming and expensive exercise. Good farm plans should be based on the actual recorded facts, particularly giving the data on the availability and requirement of resources. The records provide adequate information for planning process



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Tools of farm planning

- 1. Production function models,
- 2. Farm budgeting techniques,
- 3. Linear programming,
- 4. Operational research techniques,
- 5. Integer programming,
- 6. Dynamic programming,
- 7. Non-linear programming



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Farm budgeting

Farm plan is a programme of total farm activity drawn up by the farmer in advance. It should show the crops to be grown; farm practices to be followed; combination of other enterprises; use of labour, investments to be made on the farm, etc. The expression of farm plan in monetary terms i.e. by the estimation of receipts, expenses and net income, is called farm budgeting. In other words, farm budgeting is a process of estimating costs, returns and net profit of a farm or a particular enterprise.



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Farm enterprise budget

- Commodity production on the farm is called farm enterprise. Farm budgets can be developed for each potential enterprise. Enterprise budgets are prepared in terms of a common unit i.e., acre, hectare, for a crop, one head of livestock, etc. This facilitates easy comparison among the enterprises. Enterprise budget is the estimation of expected income, costs and profit for an enterprise.