



Financial Fitness for Farmers Part 4

Cash Flow Budgeting

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Cash Flow Budgeting





Objectives

1. Discuss how cash flow budgeting can be a tool for financial decision making and business analysis.
2. Discuss the structure and components of a cash flow budget.
3. Illustrate the procedure for completing a cash flow budget.
4. Discuss similarities and differences between a cash flow budget and an income statement.
5. Discuss the advantages and potential uses of a cash flow budget.



Cash Flow Budget

- A cash flow budget is a summary of the projected cash inflows and outflows for a business over a given period of time.
- Future accounting period is divided into “appropriate” periods (typically months).
- Purposes:
 - Estimate the ability of the business to pay financial obligations on time.
 - Estimate the amount and timing of future borrowing needs.
 - Assess cash flow needs for longer term investments.



Cash Flow Budgeting

Even the most profitable agribusinesses often find themselves short of cash to run the business:

- **Cash flow budgeting help business managers anticipate cash shortfalls and plan for such shortages (short term).**





Cash flow budgeting helps answer these questions:

- Is the project financial feasibility, that is, can we do it from a cash-flow standpoint?
- Will there be sufficient capital available when it is needed?
- If not, how much will need to be borrowed?
- Will the project generate the cash needed to repay any new loans?
- In this longer term case, an annual cash-flow for the project might be appropriate.



A cash flow budget only looks at **CASH** items

- **Cash inflows:**
 - Crop and livestock sales
 - Machinery sales, other capital asset sales
 - New loans
 - Personal and nonfarm revenue
- **Cash outflows:**
 - Expenses
 - Debt payments
 - Taxes





A cash flow budget only looks at CASH items

- Noncash items are not included:
 - Depreciation
 - Inventory changes





A cash flow budget includes **TIMING** of flow

- Cash flow budget includes:
 - “When” cash will be received and paid out.
 - “For what?”
 - “How much?”
- Usually on a monthly basis.





Estimated vs. Actual Cash Flows

- **Cash Flow Budget:**
 - Estimates cash flows for a future time period
- **Cash Flow Statement (Statement of Cash Flows):**
 - Records the actual cash flows for a past time period.
- **Advantages of having both:**
 - Compare actual values with budgeted values.
 - Early warning of cash flow problems.
 - Starting point for developing the next accounting period's cash flow budget.



Structure of a Cash Flow Budget

Usually a month

SIMPLIFIED CASH FLOW BUDGET

	Time period 1	Time period 2
1. Beginning cash balance	\$ 1,000	\$ 500
Cash inflow:		
2. Farm product sales	\$ 2,000	\$12,000
3. Capital sales	0	5,000
4. Miscellaneous cash income	0	500
5. Total cash inflow	\$ 3,000	\$18,000
Cash outflow:		
6. Farm operating expenses	\$ 3,500	\$ 1,800
7. Capital purchases	10,000	0
8. Miscellaneous expenses	500	200
9. Total cash outflow	\$14,000	\$ 2,000
10. Cash balance (line 5 – line 9)	-11,000	16,000
11. Borrowed funds needed	\$11,500	0
12. Loan repayments (principal and interest)	0	11,700
13. Ending cash balance (line 10 + line 11 – line 12)	500	4,300
14. Debt outstanding	\$11,500	\$ 0



Constructing a Cash Flow Budget

Steps:

- 1. Develop a whole-farm plan.**
- 2. Estimate cash needs for crop and livestock production.**
- 3. Estimate cash receipts from livestock enterprises.**
- 4. Estimate crop sales.**
- 5. Estimate other cash income.**



Constructing a Cash Flow Budget, cont.

Steps:

- 6. Estimate cash farm operating expenses.**
- 7. Estimate personal and nonfarm cash expenses.**
- 8. Estimate purchases and sales of capital assets.**
- 9. Find and record all scheduled principal and interest payments.**



Uses for a Cash Flow Budget

- 1. Project the timing and amount of new borrowing that the business will need during the year and the timing and amount of loan repayments.**
- 2. Help in developing a borrowing and debt repayment plan:**
 - Prevents excessive borrowing.**
 - Saves on interest expense.**



Uses for a Cash Flow Budget

- 3. Suggest ways to rearrange purchases and scheduled debt repayments to minimize borrowing:**
 - Capital expenditures and insurance premiums could be moved to months with large cash inflows.
- 4. Combines business and personal finances.**
- 5. Helps lenders:**
 - Offer better financial advice.
 - Spot weaknesses.



Uses for a Cash Flow Budget

6. Planning ahead:

- Make prompt payments and receive discounts on input purchases.

7. Tax planning:

- Point out income tax effects of the timing of purchases, sales, and capital expenditures.

8. Detect an imbalance between current and noncurrent debt:

- Too much current debt relative to noncurrent debt.



Monitoring Actual Cash Flows

- **Monitor and control cash flows throughout the year.**
- **Outflows that are exceeding budgeted amounts are quickly identified and action can be taken to correct the causes.**
- **Estimates for the rest of the year can be revised.**
- **Actual results can be used to improve future cash flow budgets.**



Monitoring Cash Flows

A FORM FOR MONITORING CASH FLOWS

Name _____

Year _____

	Annual Total	Budget to Date	Actual to Date
1 Beginning cash balance			
2 Operating receipts: Grain and feed			
3 Feeder livestock			
4 Livestock products			
5 Other			
6			
7 Capital receipts: Breeding livestock			
8 Machinery and equipment			
9 Other			
10 Nonfarm income: Wages and salary			
11 Investments			
12 Other			
13 Total cash inflow (add lines 1–12)			
14 Operating expenses: Seed			
15 Fertilizer and lime			
16 Chemicals			
17 Other crop expenses			
18 Gas, oil, lubricants			
19 Hired labor			
20 Machine hire			
21 Feed and grain			
22 Feeder livestock			
23 Livestock expenses			
24 Repairs—machinery			
25 Repairs—buildings and improvements			
26 Cash rent			
27 Supplies			
28 Property taxes			
29 Insurance			
30 Utilities			
31 Auto and pickup (farm share)			
32 Other farm expenses			
33			
34			
35 Total cash operating expenses			



Investment Analysis: Greenhouse Example

- Borrowed capital requires principal and interest payments, which represent new cash outflows.
- Will the investment generate enough additional cash income to meet its additional cash requirements?
- Is the investment *financially feasible*, as opposed to *economically feasible (or profitable)*?
- Feasibility analysis: an analysis of the cash inflows generated by an investment compared to the cash outflows required.
- DOES IT CASH-FLOW? Can you meet your debt obligations in a timely manner without disrupting the operation of your business?



Cash Flow Analysis for Greenhouse Investment (15 year life, \$30,000 salvage value)

Cost of irrigation system	\$90,000
Cash down payment	\$30,000
Capital borrowed (3 years @ 7%)	\$60,000
Additional crop income	\$24,480
Additional crop expense	\$ 7,440
Irrigation expense	\$ 5,400



Cash Flow Analysis for the Greenhouse Investment

	Year 1	Year 2	Year 3	Year 4
Cash Inflow				
Increase in crop income	\$24,480	\$24,480	\$24,480	\$24,480
Cash Outflow				
Additional crop expense	\$7,440	\$7,440	\$7,440	\$7,440
Irrigation expense	\$5,400	\$5,400	\$5,400	\$5,400
Principal payments	\$20,000	\$20,000	\$20,000	\$0
Interest payments	\$4,200	\$2,800	\$1,400	\$0
Total cash outflow	\$37,040	\$35,640	\$34,240	\$12,840
Net Cash Flow	-\$12,560	-\$11,160	-\$9,760	\$11,640



Investment Analysis

- Watch for impact on income taxes:
- Cash flow shortages often occur in these situations:
 - Land purchases.
 - Construction of new buildings and facilities.
 - Breeding stock.
 - Major equipment purchase
- It is better to know about a cash flow shortage ahead of time (**planning**)!!!



Summary

- A cash flow budget is a **summary of the estimated cash inflows and outflows** for a given time period by sub-accounting periods (month).
- Both **farm and personal cash needs** are included in a cash flow budget.
- **Noncash entries** are not included.
- A cash flow budget estimates the **borrowing needs** of the business, its **debt repayment capacity**, and the **timing** of both.
- A cash flow budget can also be used to do a **financial feasibility analysis** of a proposed investment project.



Statement of Cash Flows

Kate's Rambouilletts

Fiscal Year

2016

Beginning cash balance \$ 2,200.00

Cash Inflows

Fleece sales \$ 1,200.00

Lamb sales \$ 7,800.00

Cull ewe sales \$ 480.00

Guard dog puppies \$ 2,000.00

Operations inflows \$ 11,480.00

Cash Outflows

Grain \$ 1,500.00

Hay \$ 2,500.00

Straw \$ 300.00

Dogfood \$ 500.00

Fertilizer \$ 600.00

Salt \$ 150.00



Straw	\$ 300.00
Dogfood	\$ 500.00
Fertilizer	\$ 600.00
Salt	\$ 150.00
Wormer	\$ 200.00
Other veterinary supplies	\$ 100.00
Veterinary expense	\$ 200.00
Shearing	\$ 350.00
Labor	
Fuel	\$ 200.00
Repairs	\$ 500.00
Utilities	\$ 300.00
Miscellaneous	\$ 150.00
Operations Outflows	\$ 7,550.00
Net Cash from Operations	\$ 3,930.00



Net Cash from Operations	\$	3,930.00
Cash from capital investing		
Capital purchases	\$	1,200.00 <i>Trained border collie</i>
Capital sales	\$	-
Net Cash from Investing	\$	(1,200.00)
Cash flow from financing		
Mortgage payment	\$	(8,500.00)
Machinery loan payments	\$	(1,556.00)
Off-farm wages	\$	18,526.00
Living/draw	\$	(10,000.00)
Net Cash Flow from Financing	\$	(1,530.00)
Net Change in Cash	\$	(1,000.00)
Surplus or Deficit (Ending Cash Balance)	\$	1,200.00



Cash Flow BUDGET

30-Head Rambouillet Sheep & Wool Enterprise

Name:

Kate's Rambouillet Sheep Farm

Total Time Period:

1/1/2019 - 1/1/2020

CASH INFLOWS	Individual Time Periods					
	Jan	Feb	Mar	Apr	May	June
Lamb sales	\$3,800					
Fleece sales	200	100	50	0	450	250
Cull ewe sales						480
Guard dog puppies						



Cash Flow BUDGET

CASH OUTFLOWS	Individual Time				
	Jan	Feb	Mar	Apr	May
Grain	\$400	\$400.00	\$400	\$300	
Hay					
Straw					
Dogfood	\$50.00	\$50.00	\$50.00	\$50.00	\$50.00
Fertilizer					
Salt	\$50.00				\$50.00
Wormer					\$200.00
Other veterinary supplies					\$100.00
Veterinary expense					\$200.00



Cash Flow BUDGET

Total Cash Outflows	\$625	\$490	\$490	\$775	\$825

SUMMARY	Individual Time P				
	Jan	Feb	Mar	Apr	May
Net Cash Flow	\$3,375	(\$390)	(\$440)	(\$775)	(\$375)
Beginning cash balance	\$2,200				
Cumulative Net Cash Flow	\$5,575	\$5,185	\$4,745	\$3,970	\$3,595



Summary, Cash Flow Statements & Budgets

- A Cash Flow Statement is created from PAST transactions
- Your Income Statement can be used to inform your Cash Flow Statement
- A Cash Flow Budget will help you manage your current and future flows
- Tracking your inflows and outflows on a monthly basis will help you better manage your business
- There are many resources from free, government and university sources – see our Resources!



Questions?



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