

How much financing will your farm business need this year? When will the money be required and from where will it come? A little planning can help avoid short-term shortages of cash. One useful tool for organizing the use of capital in the farm industry is cash flow budgeting.

There are some reasons cash flow budget is a useful management tool:

- It forces the planning function of management.
- It provides a system of communicating the amount and timing of acquiring and investment needs with the lender.
- It tests your farming strategies, such as if you will generate enough income to meet all your cash needs.
- It provides a guideline against which you can compare your actual cash flows.
- Cash flow is a survival strategy during the times of low profitability.

Definition of Cash flow Budgeting

A cash flow budget is a projection of all cash receipts and all cash expenditures that are expected to appear during a certain time period. Estimates can be done monthly, bimonthly, or quarterly, and can include non-farm revenue and expenditures and farm items.

What Makes Up a Cash Flow Budget

A cash flow [budget](#) is comprising cash coming in (+) or leaving (-) the business.

Net cash flow =

Cash Coming (+)	Cash Leaving (+)
Cash inflow operations	Cash outflow from any operations
Capital asset sales	Capital asset purchases
Non-farm sources of income	Non-farm outflows of cash
New Borrowings	Debt services

Uses Of Cash Flow

Cash flow budgeting has many uses in both performing financial analysis and operating business. It is one of the most significant matrices in all of accounting and finance.

The followings are the most common cash matrices and uses of cash flow:

- **Liquidity:** evaluating how well a company can reach its short-term financial obligations.
- **Internal Rate of Return:** Measuring the Internal Rate of return an investor gains for making an investment.
- **Cash flow Yield:** measuring how much cash a business makes per share, relative to its share value, expressed as a percentage.
- **Cash Flow Per Share:** cash from operating activities separated by the number of shares outstanding.
- **P/CF Ratio:** The price of a stock divided by the Cash Flow Per Share, frequently used as an alternative to the **Price-Earnings or P/E ratio**.
- **Cash Changeover Ratio:** the time between when a business pays for its inventory (cost of goods sold) and receives payment from its customers is the cash changeover ratio.
- **Dividend Payments:** Cash Flow can be used to fund dividend payments to investors.
- **Capital Expenditures:** Cash Flow can also be effective in funding reinvestment and growth in business.

Steps Involved in Constructing a Cash Flow Budget

1. **Build up a complete farm plan.**
2. **Take Inventory of [livestock](#).** If an ongoing financial statement is available, information found under the current assets section can be applied.
3. **Estimate feed needs for the proposed livestock program.** Once your feed supply and feed demands are estimated, fix the livestock program to fit them.
4. **First measure livestock sales,** based on both production and marketing plans. Then Prepare cash receipts from livestock.
5. **Estimate sales of non-feed crops and excess feed.** After the primary cash flow budget is done, revise your marketing plans to meet capital needs throughout the year.
6. **Estimate cash revenue from other sources** including; USDA farm payments, custom machine work income, rental property, and other business activities.
7. **Estimate cash farm operating budgets.** Expenses that are controlled by contract, agreement, or law can be determined directly from contract terms unless rates are required to change. Expenses should be aligned throughout the year based on your best judgment.
8. **Assess personal and non-farm cash expenditures** that include property taxes, liabilities, insurance, rental, constructions, etc.
9. **Predict purchases and sales of capital assets** such as machinery, equipment, land, or additional breeding livestock.
10. **Identify and note the scheduled principal, and interest payments on existing debts.** Much of this information can be picked up from your most recent net worth report. Include only those debts that you have already gained at the starting of the budgeting period. Measure the interest that will be due at the time the payment will be made.

11. **Sum total cash inflows and outflows.** If the expected net cash flows for the entire year and for each session are all positive, you have a workable cash flow plan. If the net cash flows for some sessions are negative, some modifications may need to be made.

How to Increase Cash Flow?

Increase Cash Flows from Operations:

One technique to increase the cash flow is speeding up normal operational sales. Areas to consider including production, price, and new or more enterprise actions. Selling market inventory if it is available and increasing custom work are the two ways to increase cash flow.

A more impressive technique is generating greater revenues from the primary source of income. Revenue is actually production multiplied by price. Thus, an increase in production or price increase cash inflows. In order for net cash flow to be better, boosting production or increasing price must be relatively better than any associated [costs](#).

Benchmarking your operation may be a way to determine if there is potential for greater production efficiency. Feed losses, conception rates, death loss, timeliness of planting, variable rate applications, and many other elements might be a means for improving production efficiency.

Marketing may be a tactic of securing a better price, but marketing is more valuable at securing a known price ahead of time versus a “higher” known price ahead of time.

Increase Cash-Inflows From Non-Operational Sources:

Many farm families generate revenue from non-farm sources. Off-farm services are the major source of potential cash flow for the farm business and one that is often not subject to the ebbs and flows of product prices and may come with other aids such as health care and retirement.

Other potential sources of non-farm cash including contributed capital from family or non-family investors, agritourism, fish hunting, horse boarding, boat storage, and some other farming assets such as repair shop, record-keeping, seed sales, etc.

Decrease Cash Outflows from operations and Non-Operations:

Decreasing variable costs per unit of production are increasing cash flow by reducing cash outflows. This may be performed by negotiating lower lease payments, lower labor costs, or greater labor productivity, using cheaper feed ingredients, bulk buying of inputs, shared fieldwork, early detection health protocols, and collaboration.

There are some non-operational expenses that should be decreased. That includes- entertainment, frequent vacations, extra luxuries, unnecessary purchasing, etc.

Increasing Cash Inflow Through New Borrowing:

When other avenues have been used up, the best tool in the box is new borrowing to cover negative cash flow. In some situations, this is a natural part of the business. It is also quite normal to increase term debt for capital assets. For example, a twenty-five-year term loan for land, fifteen-year for a new building, or a three-year for a piece of machinery.

Example of Cash Flow Budget

Name: I. M. Farmer		Cash Flow Budget												
	Total	Jan	Feb	March	April	May	June	July	Aug	Sept	Oct	Nov	Dec	
1	Beginning cash balance	2,500	2,500	18,650	15,250	500	450	450	500	450	513	663	26,176	37,376
Operating receipts:														
2	Grain and feed	160,000	20,000	20,000								60,000	60,000	
3	Feeder livestock	88,000							88,000					
4	Livestock products													
5	Other	5,400								5,400				
6														
Capital receipts:														
7	Breeding livestock	3,800							3,800					
8	Machinery and equipment													
9														
Nonfarm income:														
10	Wages and salary	7,200	600	600	600	600	600	600	600	600	600	600	600	600
11	Investments	200	200											
12														
Total cash inflow														
13	(add lines 1-12)	267,100	23,300	39,250	15,850	1,100	1,050	1,050	1,100	92,850	6,513	61,263	86,776	37,976
Operating expenses:														
14	Seed	5,800			5,800									
15	Fertilizer and lime	26,000				10,000							8,000	
16	Chemicals	4,000			4,000									
17	Other crop expenses	2,600									2,600			
18	Gas, oil, lubricants	3,000					1,500							1,500
19	Hired labor	6,000			500	1,500	1,500	500				1,000	1,000	
20	Machine hire	800						400			400			
21	Feed and grain	4,000		800		800			800					800
22	Feeder livestock	36,000											36,000	
23	Livestock expenses	7,500	1,000	500	500	1,500	500	1,000	500				1,000	1,000
24	Repairs-machinery	3,600	500	500	500		600			500	500	500		
25	Repairs-buildings	1,800								1,800				
26	Cash rent													
27	Supplies	1,000		250			250			250			250	
28	Property taxes	3,400			1,700						1,700			
29	Insurance	700		700										
30	Utilities	600	50	50	50	50	50	50	50	50	50	50	50	50
31	Auto and pickup (farm share)	1,200	100	100	100	100	100	100	100	100	100	100	100	100
32	Other farm expenses	500		100		100		100		100		100		
33														
34														
35	Machinery and equipment	60,000			60,000									
36	Breeding livestock	1,000					1,000							
37														
38														
Other expenditures:														
39	Family living expenses	36,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000
40	Income tax and social security	8,000			8,000									
41	Other nonfarm expenses													
42														
43														
Scheduled debt payments:														
44	Current debt - principal	0												
45	Current debt - interest	0												
46	Noncurrent debt - principal	32,000		6,000				20,000		6,000				
47	Noncurrent debt - interest	27,200		12,000				3,200		12,000				
Total cash outflow														
48	(add lines 35-47)	272,700	4,650	24,000	92,150	17,050	7,500	30,150	3,650	22,800	5,850	9,050	49,400	6,450
49	Cash available (line 13-line48)	(5600)	18,650	15,250	(76,300)	(15,950)	(6,450)	(29,100)	(2,550)	70,050	663	52,213	37,376	31,526
New borrowing:														
50	Current	92,700			36,800	16,400	6,900	29,600	3,000					
51	Noncurrent	40,000			40,000									
52	Total new borrowing	132,700			76,800	16,400	6,900	29,600	3,000					
Payments on new current debt														
53	Principal	92,700							67,400		25,300			
54	Interest	2,874							2,137		737			
Total debt payments														
55	(line 53 + line 54)	95,574							69,537		26,037			
Ending cash balance														
	(lines 49 + 52 - 55)	31,526	18,650	15,250	500	450	450	500	450	513	663	26,176	37,376	31,526
Summary of debt outstanding														
Current (beginning of \$0)		0	0	0	36,800	53,200	60,100	89,700	92,700	25,300	25,300	0	0	0
Noncurrent (beg. of \$340,000)		340,000	340,000	334,000	374,000	374,000	374,000	354,000	354,000	348,000	348,000	348,000	348,000	348,000
Total debt outstanding		340,000	340,000	334,000	410,800	427,200	434,100	443,700	446,700	373,300	373,300	348,000	348,000	348,000

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Simplified Cash Flow Budget

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

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Cash flow budgeting picture

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