



Texas Agricultural
Extension Service

The Texas A&M
University System

Cash Flow Projection for Operating Loan Determination

Larry N. Langemeier, Danny Klinefelter and Dean McCorkle*

A cash flow statement can be simply described as a record of the dollars coming in and the dollars going out of a business. It shows where the money comes from (the inflow of cash) and where the money goes (the outflow of cash).

Actual and Projected Cash Flow

A record of cash inflow and outflow that has already occurred in a business is an actual or historical cash flow. An estimate or forecast of cash inflow and outflow into some future period is a cash flow projection. The actual cash flow of a business provides important information for making a cash flow projection into the future. The cash flow projection provides information on the cash generating ability and the cash requirements of a business and it indicates the timing of both.

Total Business and Partial Business Cash Flow

A cash flow can be set up for either the entire farm business (including family living expenses and nonfarm income) or it can be set up to study only a segment of the business. For example, it may summarize all the cash expenses and income from a specific enterprise. A cash flow projection will often include only the cash inflow and outflow effect of a proposed business expansion.

Long-Run Profitability vs. Short-Run Feasibility

Two management questions that need to be studied regarding proposed business changes are long-run profitability and short-run feasibility. Long-run profitability refers to a period of 8 to 10 years or more and is usually studied through the use of projected income statements.

Short-run feasibility refers to the income-generating ability of a business in a short period of time, usually 1 year to 3 or 5 years, and is usually studied through the use of a projected cash flow. The Cash Flow Projection form in this leaflet can be used to study the short-run feasibility of a business change. It has been designed specifically to project the operating loan balance of a farm business for each monthly period.

Preparing a Cash Flow Projection

Information for preparing a cash flow projection may come from historical farm records, tax returns, and other applicable information you may have.

A cash flow projection is made periodically—monthly, bimonthly, quarterly, semiannually or annually. This cash flow projection form is designed to be used on a monthly basis.

The "Annual Estimate" column should be filled in first. Then the annual estimate may be allocated to the various months or periods.

Directions for arriving at the "Total Cash Inflow," "Total Cash Outflow," "Net Cash Flow," and "Projected Operating Loan Balance" are given on the form.

Risk Management Education



*Extension Agricultural Economist, Kansas State University Agricultural Experiment Station and Cooperative Extension Service; Professor and Extension Economist and Extension Program Specialist-Risk Management, The Texas A&M University System.

CASH FLOW PROJECTION FOR O

Name _____ Address _____

	Annual Estimate	Jan.	Feb.	Mar.	
CASH INFLOW ITEMS					
1 Livestock: Background Cattle	144,200			99,200	
2 Market Hogs-Sows	191,200	800	47,000		
3 Crops: Wheat	52,500			26,500	
4 Grain Sorghum	2,700				
5					
6 Distributions from cooperatives	400		400		
7 Agricultural program payments	3,100		1,550		
8 Commodity credit loans					
9 Crop insurance proceeds					
10 Custom hire					
11 Other farm income, gas refunds, etc.	7,500	5,500			
12 TOTAL FARM CASH INFLOW (Add lines 1 - 11)	401,600	6,300	48,950	125,700	
13 Non-farm business income and wages	4,200	800	900	900	
14 Non-farm dividends and interest	200				
15 Gifts, inheritance and other non-farm income					
16 TOTAL CASH INFLOW (Except Loans) (Add lines 12 - 15)	406,000	7,100	49,850	126,600	
CASH OUTFLOW ITEMS					
17 Breeding fees, livestock marketing, and other livestock expense	4,600	500	700	500	
18 Chemicals—herbicides, insecticides, etc.	4,000		500		
19 Conservation expense	500				
20 Custom hire, trucking, freight, lease	2,400				
21 Feed purchased	130,000	5,000	20,000		
22 Fertilizer, lime	7,000				
23 Gasoline, fuel, oil	10,000				
24 General farm insurance	2,200				
25 ¹ Interest	13,100		5,600	2,500	
26 Labor hired	18,200	1,500	1,500	1,500	
27 Cash farm rent	7,800				
28 Repairs, maintenance, other machinery expense	9,400		5,200		
29 Seeds, plants purchased, other crop expense	3,100			3,100	
30 Storage, warehousing					
31 Supplies purchased, general					
32 Real and personal taxes	2,500				
33 Utilities	4,800	400	400	300	
34 Veterinary fees, medicine	3,900		400		
35 Auto expenses	600	200		100	
36 Other farm expenses—Farm organization fees, publications, etc.	900	100		300	
37 TOTAL FARM CASH OPERATING EXPENSES (Add lines 17 - 36)	225,000	7,700	34,300	8,300	
38 Livestock purchases	125,400				
39 ¹ Machinery, equipment (cash payments, principal)	6,200				
40 ¹ Buildings (cash payments, principal)	2,900				
41 ¹ Land purchases (cash payments, principal)	5,200				
42 TOTAL FARM CASH OUTFLOW (Add lines 37 - 41)	364,700	7,700	34,300	8,300	
43 Family living expenses	30,000	2,500	2,500	2,500	
44 State income tax	1,100		1,100		
45 Federal income tax and social security	5,000		5,000		
46 Non-farm business expenses	300				
47 Other non-farm and family cash outflow	400		100		
TOTAL CASH OUTFLOW (Lines 42 - 47)					
48 (Except Operating Loan Payments)	401,500	10,200	43,000	10,800	
² NET CASH FLOW (+ or -) (Line 16 minus line 48)					
49 (Except Loan Receipts and Operating Loan Payments)	4,500	-3,100	6,850	115,800	
³ PROJECTED OPERATING LOAN BALANCE					
50 (Operating Loan Carried Over From Last Period <u>\$100,000</u>)	XXXX	103,100	96,250	(Surplus)	

1,2,3 See last page.

ERATING LOAN DETERMINATION

Date _____

	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Actual Cash Flow	
ESTIMATED TOTAL CASH INFLOW											
	45,000										1
		900	47,000	700		45,000	800		49,000		2
								26,000			3
			2,700								4
											5
											6
						1,550					7
											8
											9
					400				1,600		10
	45,000	900	49,700	700	400	46,550	800	26,000	50,600		11
	800	800									12
									200		13
											14
											15
	45,800	1,700	49,700	700	400	46,550	800	26,000	50,800		16
ESTIMATED TOTAL CASH OUTFLOW											
			200		200		1,000	1,100	400		17
	2,700				800						18
						500					19
				2,400							20
	25,000	10,000	5,000		15,000	5,000		7,500	37,500		21
	3,100				2,000				1,900		22
	5,000				3,000				2,000		23
		2,200									24
	4,000				1,000						25
	1,500	1,500	1,500	1,700	1,500	1,500	1,500	1,500	1,500		26
		3,900						3,900			27
	200	400	800	600		1,200	600	400			28
											29
											30
											31
			1,300						1,200		32
	500	500	600	400	200	300	300	400	500		33
			400				1,500	1,600			34
				100		100			100		35
				100		200			200		36
	42,000	18,500	9,800	5,300	23,700	8,800	4,900	16,400	45,300		37
							125,400				38
	4,200				2,000						39
	2,900										40
					5,200						41
	49,100	18,500	9,800	5,300	30,900	8,800	130,300	16,400	45,300		42
	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500		43
											44
											45
	100				100			100			46
			100			100		100			47
	1,700	21,000	12,400	7,800	33,500	11,400	132,800	19,100	47,800		48
	-5,900	-19,300	37,300	-7,100	-33,100	35,150	-132,000	6,900	3,000		49
	13,650 (Surplus)	-5,650	31,650 (Surplus)	24,550 (Surplus)	8,550	26,600 (Surplus)	105,400	98,500	95,500		50

Interpretation of a Cash Flow Projection

To illustrate the use of the Cash Flow Projection form, a sample set of figures has been recorded on the form.

In the example, line 16 shows the total cash inflow (not including loan receipts) and line 48 shows the total cash outflow (not including operating loan payments). Net cash flow is the difference between cash inflow and cash outflow and is shown on line 49 for the annual estimate and for each monthly period.

If the cash inflow for the period is greater than the cash outflow for the period, the net cash flow is positive. If the opposite is true, the net cash flow is negative. For example, the January projected total cash inflow of \$7,100 (line 16) is less than the total cash outflow of \$10,200 so the net cash flow for January is -\$3,100 (line 49). In March, the total cash inflow of \$126,600 (line 16) is greater than the total cash outflow of \$10,800 (line 48), leaving a net cash flow of \$115,800 (line 49).

The projected operating loan balance for each month is calculated on line 50. The operating loan carried over from the last period should be written in the appropriate space after the caption on line 50. In the example the operating loan carried over from the previous December is \$100,000. For each monthly period, the projected operating loan balance is determined by combining the previous balance with line 49 net cash flow for that period. A negative cash flow figure for a month increases the operating loan balance so it is added to the previous projected operating loan balance to determine the projected operating loan balance for that period. For example, the January net cash flow of (-\$3,100) is combined with the \$100,000 operating loan carried over from the previous December to arrive at a January projected operating loan balance of \$103,100.

A positive net cash flow for a month reduces the previous month's projected operating loan balance. For example, the March net cash flow of \$115,800 (line 49) is subtracted from the February projected operating loan balance of

\$96,250 (line 50), leaving a March projected surplus of \$19,950 (line 50). If the net cash flow for a month is greater than the projected operating loan balance for the previous month, the difference can be labeled surplus.

The projected operating loan balances (line 50) for each month can be used as a guide in projecting the approximate amount of loan funds needed and the timing of the loan fund needs.

What Will a Cash Flow Projection Do

As farm businesses grow and as larger quantities of cash are needed, a cash flow projection becomes a more essential tool in the financial management of farm businesses. A cash flow projection gives the farm operator a basis for studying the financing of the business. It indicates how much needs to be borrowed and when it is needed.

A cash flow projection provides for "control" of the business. By comparing the projected cash flow to the actual cash flow that occurs, the variance of each item can be noted. If receipts are less than expected or expenses more than expected, the cash flow will alert the manager to a possible problem.

A cash flow projection helps in planning additional investments in the farm business. To be sound, an investment must be profitable in the long run. It must also be able to generate enough cash to make the payments on principal and interest.

Table End Notes

¹Principal payments on all loans not a part of this operating budget go on lines 39-41 All interest goes on line 25.

²Add negative "Net Cash Flow" figures of each period to "Projected Operating Loan Balance" of previous period to arrive at "Projected Operating Loan Balance" for each period. Similarly, subtract positive "Net Cash Flow" figures from "Projected Operating Loan Balance" of previous period.

³The purpose of line 50 is to provide information for estimating the amount of operating borrowings needed in each period. The cash inflow and outflow items above do not include receipt or payment of operating loans. NOTE: To calculate the net cash flow for the farm business alone, subtract line 42 from line 12.

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