



Cash Flow Budget



Cash Flow Budget


- Cash must be available when obligations are due.
 - Generating cash is a complex interaction of production, marketing and financing decisions.
- Without a focus on the future, analyzing past operations would accomplish little.



Cash Flow Budget


- Anticipated cash inflows
- Anticipated cash outflows
- Comparison of actual cash flows with projected cash flows

Does Not In Any Way Indicate Profitability!




Uses and Advantages of the Cash Flow Budget

- Formalizes the entire planning process by providing the “best estimate” of how the farmer or rancher plans to operate for the coming year.
- Provides projected revenue and expense estimates necessary for a pro forma Income Statement



Uses and Advantages of the Cash Flow Budget

- Provides an opportunity to evaluate borrowing and repayment plans
 - Nonrevolving line of credit (summation)
 - Revolving line of credit (peak)



Cash Flow Budget

- Two ways of developing a Cash Flow Budget
 - Actual dollars received and expended during the past year
 - Budget on an item-by-item basis
 - Production plans
 - Marketing plans
 - Price expectations

Cash Flow Budget


- Beginning cash balance
- Operating receipts
- Capital receipts
- Non-farm income
- Total Cash Inflows or Total Cash Available

Cash Flow Budget

- Operating expenses
- Livestock and feed purchases
- Other expenditures
- Cash principal and interest payments
- Total Cash Outflows or Total Cash Required


Cash Flow Budget

- Cash inflow – Cash Outflow =
Net Cash Flow
- Projected Operating Loan Balance




Cash Flow Budget

- Monitoring
 - Month-by-month
 - Year-to-date
 - End-of-year
- Financial control
 - Variance = projected - actual



Pro-forma Income Statement

- A pro-forma income statement is similar to a historical income statement, except it projects the future rather than tracks the past
- Projected cash revenue and cash expenses
 - Adjust for projected inventory changes
 - Adjust for transfer of feeder livestock into the breeding herd
- Interest expense
- Depreciation
- Capital Adjustment
- Taxes



Feasibility and Profitability

- It is crucial to understand the difference between cash and accrual accounting and the need to analyze an operation on both a cash and accrual basis.
