

Twelve Steps to Cash Flow Budgeting

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

A cash flow budget is an estimate of all cash receipts and all cash expenditures that are expected to occur during a certain time period. Estimates can be made monthly, bimonthly, or quarterly, and can include non-farm income and expenditures as well as farm items. Cash flow budgeting looks only at money movement, not at net income or profitability.

A cash flow budget is a useful management tool because it:

- Forces you to think through your farming plans for the year.
• Tests your farming plans: will you produce enough income to meet all your cash needs?
• Projects how much operating credit you will need and when.
• Projects when loans can be repaid.
• Provides a guide against which you can compare your actual cash flows.
• Helps you communicate your farming plans and credit needs to your lender.

Getting Started

Developing a cash flow budget for the first time will not be easy. Following a step-by-step approach can make the task less difficult, though. You can create your own cash flow budget using Decision Aids Cash Flow Statement (long form) or Cash Flow Statement (short form). If you also want to create a net worth statement, income statement and calculate financial performance measures use Decision Aid Comprehensive Financial Analysis.

1. Outline your tentative plans for livestock and crop production for the year, as shown in Example 1.
2. Take an inventory of livestock on hand and crops in storage now. If a recent financial statement is available, information found under the current assets sections can be used.
3. Estimate feed requirements for the proposed livestock program, as shown in Example 2. Some typical feed requirements are contained in Information File Livestock Enterprise Budgets (File B1-21). Your own past feed records are also a good guide.

Adjust feed requirements if livestock will complete only part of the feeding program during the budget year. It is also helpful to divide requirements for home-grown feedstuffs between the periods prior to harvest and following harvest.

4. Estimate feed available, as shown in Example 2. List beginning inventories prior to harvest, and expected new crop production after harvest. Remember to exclude grain transferred to the landlord under a crop-share lease.

Finally, estimate the quantity of feed purchases needed, if any, and the quantity available to sell. Once your feed supply and feed requirements are estimated, you may want to adjust the livestock program to fit them

5. Now you are ready to start with the actual cash flow budget. Start by entering the cash on hand at the beginning of the year in the first period (January) and in the "Total" column. You can also specify a minimum cash balance to be carried over from month to month.

Next estimate livestock sales based on production and marketing plans, as shown in the top lines of Example 3.

- Start with livestock on hand, then add livestock to be produced during the year. Exclude animals to be carried over to next year or held back for breeding stock.
- Include sales of breeding stock that will be culled.
- Also include livestock product sales, such as for milk or wool.
- Use your best estimate of prices based on outlook forecasts or marketing contracts.

Information Files Livestock Planning Prices (B1-10) and Livestock Enterprise Budget Prices (File B1-20) provide information on planning prices.

- Reflect expected seasonal price patterns. In this example, the farmer estimated hog prices at \$40 per cwt. in August-October, and \$38 per cwt. in November and December.
- Stay on the conservative side. If your plan will work at conservative prices, it will also work at better prices.
- Some producers prepare budgets at two or three price levels for the major products they sell. This helps them identify the amount of price risk they face.

6. Plan sales of non-feed crops and excess feed.

- Consider crops in inventory at the beginning of the year as well as crops to be harvested during the year. Plan to carry over grain for feed for next year plus other crops normally sold in the following year.
- Plan timing of sales according to your normal marketing strategy. In this example, the farmer plans to sell old-crop soybeans in March and hold new-crop soybeans until after January 1 of next year.
- Follow the same guidelines as in step 5 for estimating crop prices. Look at outlook forecasts, consider seasonal price patterns, and use conservative price estimates. *Information File Crop Planning Prices (A1-10)* provides information on planning prices.

- Multiply quantities to sell by anticipated prices, and carry the totals to the budget form.
- After the initial cash flow budget is completed, you may want to revise your marketing plans to meet capital needs throughout the year.

7. Estimate income from other sources, including:

- government payments
- custom machine work income
- income from off-farm work, rental property, or other business activities
- interest, dividends, patronage refunds, etc.

Last year's additional cash income listed on your income tax return is a useful guide.

8. Project crop expenses and other farm and family living expenditures.

- Last year's expenditures are a good guide. Adjust for changes in price levels. Helpful information is contained in *Information File Crop Production Cost Budgets (File A1-20)* and *Crop and Livestock Costs (File C1-14)*
- If cropping plans will be different this year, detailed field-by-field production plans or field maps (see Example 5) can be used to estimate expenses.
- Expenses that are determined by contract, agreement, or law can be estimated directly from contract terms, unless rates are expected to change. These include property taxes, property and liability insurance premiums, and fixed cash rents.
- Adjust last year's living expenses for changes in family circumstances and inflation. If no family living expense records are available, *Information File Family Living Expenditures (File C1-20)* is a helpful guide. Remember to allow for possible purchases of vehicles, furniture, appliances, or major repairs.
- A tax estimate made at the end of the year for tax management is helpful for projecting income tax and social security payments to be made for last year's income. Your estimate can be revised when your actual tax returns have been completed.

- Expenses should be spaced through the year based on your best judgment. Some will fall mainly during certain seasons, such as machine hire, part-time labor and crop expenses. Remember to place these expenses during the period of payment, not the period of use. Some expenses will be spread through the year but will have definite seasonal peaks. Fuel, machinery and equipment repair, and utilities are examples. Other expenses may be spaced evenly through the year, such as vehicle operating expenses, livestock health and supplies, and living expenses.
9. **Estimate operating surplus.**
- Add total projected cash inflows for the year and for each month, as shown in the sample budget in Example 3. Add the total inflows for each month to check that they equal the total projected inflow for the year.
 - Add total projected cash outflows for the year and for each month. Add the total outflows for each month to check that they equal the total projected outflow for the year.
 - Subtract total cash outflows from total cash inflows to determine net operating surplus. Add the operating surpluses for each period to check that they equal the total operating surplus for the year.
10. **Consider capital purchases** such as machinery, equipment, land, or additional breeding livestock. Major machinery expenses such as a tractor overhaul can also be included here, as well as construction or improvement of buildings. Example 4 shows that the farmer is considering trading for a new combine for a cost of \$50,000. This amount is entered under the “Capital Purchases” section. Show only the cash difference to be paid when a trade is involved.

You may want to complete the rest of the cash flow budget first to see if major capital expenditures will be feasible this year. If a portion of the item will be financed by borrowing, then include the anticipated loan amount in the “New Term Loans” section.

11. **Summarize debt repayment.** Much of this information can be taken from your most recent financial statement. Include only those debts that you have already acquired at the beginning of the budgeting period. Calculate the interest that will be due at the time the payment will be made. Remember, the financial statement may show only interest accrued up to the date of the statement.

12. **Calculate the cash flow surplus or deficit** by adding the operating surplus for each month to New Term Loans, then subtracting Capital Purchases and Loan Payments. If the estimated net cash flows for the entire year and for each month are all positive, you have a feasible cash flow plan. If the net cash flows for some months are negative, some adjustments will need to be made.

Example 1. Production plans for the year.**Crop production plans**

500 acres of corn
 400 acres of soybeans
 50 acres of hay
 80 acres of pasture

Livestock production plans

224 litters, farrow to finish swine

Example 2. Determining feed required (corn).

Enterprise	No. of units	Bushels needed per unit	Total bushels needed	Before harvest	After harvest
Farrow-to-finish	224 litters	105 per litter	23,520	17,640	5,880
Enterprise	No. of acres	Yield per acre	Bushels available	Before harvest	After harvest
Com	beg. inventory		42,500	42,500	
Com	500 acres	135 bu.	67,500		67,500
Needed to buy				0	0
Available to sell				24,860	61,620

Example 3. Cash flow plan for year _____.

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Total
Cash Inflows													
Beg cash bal	6,146	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	6,146
Raised hogs	10,800	12,600	13,500	13,300	14,250	14,250	14,000	15,000	15,000	13,500	14,250	14,250	164,700
Alfalfa hay	-	5,525	-	-	-	-	-	-	7,500	-	-	-	13,025
Soybeans	-	-	110,387	-	-	-	-	-	-	-	-	-	110,387
Feed corn	-	-	-	40,500	-	-	-	-	-	-	-	-	40,500
Misc. crop	-	-	-	-	-	-	-	-	3,000	6,750	3,750	-	13,500
Cull stock	715	715	715	715	715	715	715	715	715	715	715	715	8,580
Pat dividend	-	-	-	-	-	-	-	-	-	-	-	4,000	4,000
Other farm	-	-	-	-	-	-	-	-	-	-	-	500	500
N-Farm wages	2,000	2,000	2,000	2,000	2,000	-	-	-	2,000	2,000	2,000	2,000	18,000
Other N-Farm	750	750	750	750	750	750	750	750	750	750	750	750	9,000
Total inflow	20,411	22,590	128,352	58,265	18,715	16,715	16,465	17,465	29,965	24,715	22,465	23,215	388,338
Cash Outflows													
Seed	-	-	-	20,200	-	-	-	-	-	-	-	-	20,200
Fertilizer	-	-	-	33,400	-	-	1,093	1,093	-	-	-	-	35,585
Chemicals	-	-	-	27,000	-	-	-	-	-	-	-	-	27,000
Crop insurance	-	-	-	-	-	-	-	-	-	-	4,350	-	4,350
Drying fuel	-	-	-	-	-	-	-	-	-	-	7,300	-	7,300
Purchased feed	3,544	3,326	3,107	3,163	3,896	4,714	4,890	4,890	4,890	4,890	4,890	4,890	51,087
Veterinary	384	383	383	397	444	492	502	502	502	502	502	502	5,492
Lstk supply	276	275	274	288	336	383	393	393	393	393	393	393	4,192
Lstk marketing	160	183	195	183	195	195	183	195	195	177	195	195	2,247
Fuel & oil	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000
Repairs	3,333	-	3,333	-	3,333	-	3,333	-	3,333	-	3,333	-	20,000
Custom hire	-	-	-	6,000	-	-	-	-	-	-	-	-	6,000
Land rent	-	-	42,000	-	-	-	-	-	-	-	-	42,000	84,000
RE taxes	-	-	500	-	-	-	-	-	500	-	-	-	1,000
Farm insurance	-	-	-	1,000	-	-	-	-	1,000	-	-	-	2,000
Utilities	71	71	59	59	59	59	59	59	59	178	178	89	1,000
Dues & fees	42	42	42	42	42	42	42	42	42	42	42	42	500
Miscellaneous	100	100	100	100	100	100	100	100	100	100	100	100	1,200
Accounts payable	1,126	-	-	-	-	-	-	-	-	-	-	-	1,126
Family living	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	36,000
Income taxes	-	5,000	-	-	-	-	-	-	-	-	-	-	5,000
Min end balance	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Total outflows	14,035	14,380	54,993	96,832	13,404	10,984	15,594	12,272	1,6013	11,281	26,281	53,209	328,278
Operating surplus	6,376	8,210	73,359	-38,567	5,311	5,731	871	5,193	13,952	13,434	-3,816	-29,994	60,060

Example 5. Estimating crop input costs.

Product	Field	Acres	Unit/acre	Total units
Anhydrous	1	47	110 lb	5,170
Ammonia	2	86	100 lb	8,600
	3,4	148	85 lb	12,580
Total		281		26,350
Cost @ \$.12				\$3,162
