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Getting control of your money #3: Improving Cash Flow

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Getting control of your money #3: Improving Cash Flow

Jack Davis, area management specialist

How much short-term credit does your family farm business need for the year? When and where will cash be generated? A useful tool for finding these answers and managing the financial needs of the family farm is a cash flow budget.

The cash flow budget is an estimate of cash receipts and expenditures for a specific time period. The budget only looks at money flows into and out of the business, not at net income or profitability.

It is beneficial to have a rolling 12- to 18-month cash budget at all times to aid in the timing of borrowing needs or investment opportunities. This can be done quarterly, bi-monthly, or monthly. As an example, when a quarter is completed it would be dropped from the cash flow and a new quarter added.

This method of cash flow budgeting helps you spot opportunities or identify problems. Cash flow is good for planning as it forces you into assessing the income and expense for the farm business.

A cash flow budget is useful because it:

- Tests whether you will produce enough income to meet all your cash needs.
- Projects your need for operating funds and your ability to meet repayment on borrowed funds.
- Aids control by comparing budgeted to actual cash flow. This is where you identify problems and discover opportunities.
- Assists in communicating your plans and credit needs to your lender.

The budget may also serve as a control tool by comparing actual revenues and expenditures to budgeted levels.

The family farm business cash flow includes a line item for withdrawals for family living expense. The family draw or living expense is a major expense for most small businesses, so it is important to do a separate budget to manage household accounts. Refer to Extension Extras 14079 and 14080, on getting control of your money by using different methods to track and record income and expenditures, and EC 916, a household account book.

If your annual projected cash flow is negative, there are some adjustments you can make.

- Decrease capital purchases.
- Properly finance capital purchases using term loans.
- Restructure debt. There is sometimes room to restructure current liabilities against non-current assets, such as breeding stock or machinery.
- If you have sufficient equity in assets, negotiate an interest-only payment during the year.
- Cull unproductive livestock and seldom-used equipment. View each piece of equipment objectively when you decide if you really need it.
- Work with your lender to create notes for raised breeding livestock as though they were purchased. By creating the note, you have reversed the cash flow and the note will be paid back over time. This will match the cash flow that is generated from future sales of offspring.
- Review your marketing program by taking into account price changes.
- Reduce non-farm expenditures, and/or increase non-farm income.

Review your cash flow budget either monthly, bi-monthly or quarterly. Compare actual cash flow with budgeted. This will allow you to anticipate changes in your credit needs and to identify opportunities.

If this is your first attempt at developing a cash flow budget use the following steps as a guide.

- Outline your production plan for crops and livestock.
- Inventory your marketable commodities. Use a recent balance sheet if available.
- Estimate crop production and feed needs for your livestock.
- Estimate livestock sales.
- Estimate sales of cash crops and excess feed.
- Estimate other income.
- Estimate feed and livestock purchases.
- Estimate crop and general farm expenses.
- Determine family withdraws.
- Budget capital purchases.
- Determine debt repayment (principal and interest).
- Calculate net cash flow.

If you need additional help, talk with your lender or local Extension educator. A computerized spreadsheet aids in the number crunching and can be used to monitor cash flow. The following is a bi-monthly format that may be used for a projected cash flow.



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	Last Year's Total	Total Projected	Cash Flow Budget Jan. --- Feb.	March --- April	May --- June	July --- August	Sept. --- Oct.	Nov. --- Dec.
CASH INFLOWS (all Sources)								
Grain Sales		\$						
Livestock Sales								
Government Payments								
Custom Work								
Other Income								
Capital Sales								
New Term debt								
TOTAL CASH INFLOW	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

