

Understanding a Cash Flow Projection

Balance sheets and income statements provide information that reflect past financial performance of a business. However, producers and lenders are often equally, if not more, interested in future performance.

For this reason, a cash flow projection is a valuable tool.

A cash flow projection summarizes the flows of cash into and out of an operation. It can be as simple as a one page analysis or may involve several schedules that feed information into a central statement. A cash flow is not only concerned with the amount but also the timing of the cash flows. The cash flow can be useful for determining:

- ✓ The need for operating lines of credit to cover cash flow deficits.
- ✓ Periods of excess cash when funds could be placed in income-earning assets.
- ✓ The need for changes in marketing or expenditure plans
- ✓ The cash flow feasibility of a new investment.

Cash Flow statements are prepared as follows:

**Beginning Cash or Line of Credit Balance + Cash Inflows
– Cash Outflows = Ending Balance**

A cash flow statement lists all cash inflows and cash outflows from operating, financing and investing activities.

Many income and expense items involve cash and will be found on a cash flow; however, a cash flow is not the same as an income statement and will not show profitability.

Cash flows include inflows and outflows of cash not seen on income statements and a cash flow does not include non-cash expenses like depreciation.

Common cash inflows and outflows include:

Cash Inflows

- ✓ Sales of market or breeding livestock
- ✓ Crop Inventory Sales
- ✓ Government Payments
- ✓ Custom machine work income
- ✓ Off-Farm Income
- ✓ Sale of Capital Assets
- ✓ Funds from new term debt

Cash Outflows

- ✓ Cash operating expenses (feed, seed, repairs, fuel, etc.)
- ✓ Term Debt Payments
- ✓ Capital Purchases
- ✓ Living Expenses

Additional Tips for Cash Flows

- ✓ **Review** your cash flow from time to time throughout the year.
- ✓ **Be conservative.** If it works with low commodity prices and high costs it will work with high commodity prices and low costs.
- ✓ Just getting started? **Use a template.** Most lenders have premade spreadsheets or worksheets available for customers to use.
- ✓ **Do your research** and utilize the resources available to you (enterprise budgets, spreadsheets, etc.) Ag Universities and extension agencies have a lot of resources for producers.

A cash flow is only one of several statements that can be used to measure the financial strength of a business. When used along with balance sheets and income statements producers can get a comprehensive picture of the financial health of their operation.