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**Using Farm Cash Flow Statements for
Management Decisions**

By

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Using Farm Cash Flow Statements for Management Decisions¹

The flow of capital into and out of the farm business occurs frequently. Many of these transactions occur as cash transactions. Successful business managers know that it is important to control, and monitor, this flow of cash in and out of the farm business. Understanding of the proper management of the flow of capital, and especially of cash, can significantly improve the performance of the farm business.

What Is Cash?

Cash is money on hand, either being held in the bank or in the business. By this definition, cash does not include inventory, accounts receivable, or property. All of these items might be converted to cash during the course of business (classified as current assets on the balance sheet as discussed in a companion publication). Cash, not current assets, is important since cash is required to pay suppliers, to pay the rent, and to meet hired labor expenses.

There is a difference between profit and cash. Some profitable businesses can experience cash shortages while other businesses may not have cash flow problems, but they may not be profitable. Profit is the amount of money that would be left if all income was received and all expenses were paid. However, profit is not a day-to-day consideration. *Cash* is what is required to run the business while trying to make a *profit*.

What Is Cash Flow?

Cash flow simply refers to the flow of cash into and out of a business over a period of time. A positive cash flow is experienced when the cash coming in to the business is more than the cash going out of the business. A negative cash flow occurs when the cash going out of the business is more than the cash coming in to the business.

Successful business managers will prepare both a statement of cash flows and a cash flow statement (also called a cash flow budget or projected cash flow). This publication explains the differences between the two statements and why both are important for successful business management decision making.

Statement of cash flows

A Statement of Cash Flows is typically prepared at the end of the business period being analyzed at the same time the income statement and ending balance sheet statement are prepared. Thus, the statement of cash flows differs from the more common projected cash flow in that it is a statement of the flow of cash for the business period just ended. The Statement of Cash Flows is divided into three components so that the sources and

¹ This information has been adapted for use in South Dakota from *Cash Flow Projection for Operating Loan Determination* by Larry Langemeier, Danny Klinefelter and Dean McCorkle; RM5-7.0; 5-98; *Assessing and Improving Farm Cash Flow* by Dale Johnson, James Hanson, and Billy V. Lessley; FS-541; College of Agriculture and Natural Resources; University of Maryland.

uses of cash can be analyzed and understood. These components include internal and external sources of cash. The internal components of a Statement of Cash Flows include operating cash flow and investing cash flow. Financing cash flow is classified as an external flow of cash.

Operating Cash Flow

Operating cash flow is the cash flow generated from general business activities. It is the cash generated from sales of the product or service of your business. Operating cash flow is sometimes referred to as working capital

Investing Cash Flow

Investing cash flow is generated from *non-operating* activities. This component would include the flow of cash from investments, one-time gains or losses, or other sources and uses of cash outside of normal operations.

Financing Cash Flow

Financing cash flow is the cash to and from external sources, such as lenders, investors and shareholders. Committing to additional debt commitments from taking out a new loan, or the repayment of an existing loan, are some of the activities that would be included in this section of the statement of cash flows.

Preparing Statement of Cash Flows

The cash flow statement is used to analyze the cash inflows (where the money came from) and outflows (where the money went) during a designated time period.

Businesses that prepare profit and loss statements on a monthly basis know that there are certain business activities which may not affect the profit and loss statement for some time. Some of these activities include increases in inventory purchases, increases in accounts receivable, and the purchase of equipment.

The statement of cash flows is used to highlight these activities in a way that an income statement will not. Some creditors want to see a statement of cash flows showing how the funds from a previous loan were used before they renew an existing loan or approve a new loan.

To determine operating cash flow, calculate business net income and the account for those business transactions which did not result in inflows or outflows of cash. The most common non-cash expense is depreciation.

Next, identify all the balance sheet accounts that are associated with operations and determine the *change* in the account from the end of the last period to the end of the current period. Operating cash flow will include all the balance sheet accounts that are a

part of normal operations. Trade receivables and payables as well as accrued expenses, prepaid expenses and other current assets that are a part of day-to-day operations are included in operating cash flow.

Other balance sheet accounts will either be investing activities or financing activities. For investing and financing activities, again determine the change in each balance sheet account from the beginning of the period to the end of the period, and compute the sum of all three activities. The statement of cash flows provides a complete picture of the cash flow for the farm business.

It is easiest to think of a statement of cash flows as the opposite of a projected cash flow statement. Preparing a projection of cash flows for the next business period will be easier if the statement of cash flows is prepared for the business period just completed. If business managers know the flow of cash through their business for the last period, it becomes easier to project what the flow of cash will be in the next business period.

Example of Statement of Cash Flows

STATEMENT OF CASH FLOWS

(1)	Beginning cash balance (farm and nonfarm)	-3,674
CASH FROM OPERATING ACTIVITIES		
	Gross cash farm income	279,321
	Nonfarm income	(*) -
	Total cash farm expense	(-) 191,472
	Family living expense	(-) 38,819
	Income and social security tax	(-) 9,635
(a)	Cash from operations	(=) 39,395
CASH FROM INVESTING ACTIVITIES		
	Sale of breeding livestock	-
	Sale of machinery & equipment	(*) -
	Sale of titled vehicles	(*) -
	Sale of farm land	(*) -
	Sale of farm buildings	(*) -
	Sale of other farm assets	(*) -
	Sale of nonfarm assets	(*) -
	Purchase of breeding livestock	(-) -
	Purchase of machinery & equip.	(-) 12,342
	Purchase of titled vehicles	(-) -
	Purchase of farm land	(-) -
	Purchase of farm buildings	(-) -
	Purchase of other farm assets	(-) -
	Purchase of nonfarm assets	(-) -
(b)	Cash from investing activities	(=) -12,342
CASH FROM FINANCING ACTIVITIES		
	Money borrowed	8,400
	Cash gifts and inheritances	(*) -
	Principal payments	(-) 30,706
	Dividends paid	(-) -
	Gifts given	(-) -
(c)	Cash from financing activities	(=) -22,306
(d)	Net change in cash balance	(a+b+c) 4,747
	Ending cash balance	(1+a) 1,073

CASH FLOW STATEMENT

A cash flow statement is also referred to as a cash flow budget or as a projected cash flow. A cash flow statement is actually a budget for the whole farm. The cash flow statement is a projection for the business of cash inflows and outflows over a certain period of time. Typically, a cash flow budget is prepared on an annual basis and is prepared to reflect the flow of capital over the entire year. More useful are those cash flow budgets that are prepared on a month-to-month basis. Uncertainties in agriculture lead to uncertain projections of future events. Thus, many business managers argue that trying to project cash flows too far into the future may prove to be a waste of time since nothing ever turns out just as expected. However, a cash flow budget that doesn't look far enough into the future will not predict future events early enough and will thus prevent or hinder the manager from taking corrective action in time to make a difference in the management of business.

Preparing the projection of business cash flow should become customary and be part of the annual budget and budget paperwork. All budgets, whether for an individual enterprise or for the whole farm or ranch, are the foundation of controlling cost and profitability during a production plan. It does not matter whether the budgeting process is simple or complex, it is imperative that it be accomplished. All budgets, irrespective of the area being managed, are constructed upon historical data and are the basis for our future budget based upon actual or best attainable results to the most likely. The cash flow statement can be thought of as the whole farm combination of all the various individual enterprise budgets.

Individual enterprise budgets are reviewed and combined into a whole farm budget (cash flow statement) for monitoring and feed back on management decisions. Generally, when budgets are prepared, past performance is reviewed as a basis on which to make the projection. Therefore, the preparation of a Statement of Cash Flows can become invaluable when preparing the Cash Flow Statement.

Like the Statement of Cash Flows, the cash flow statement examines the flow of capital into and out of the farm business. Cash flows into the farm/ranch business from various sources such as crop and livestock sales, sale of capital assets, and from borrowed money. This inflow of cash is used to meet financial obligations like production expenses, capital expenditures, loan payments and family living expenditures. Proper planning and budgeting is important because inflows and outflows seldom coincide with each other. Consequently, a liquidity or cash reserve should be managed to prevent cash shortages from disrupting your normal farm business operations. The Cash Flow Statement can be used to predict when cash shortages may occur and when cash may be available. This prediction is based on the accounting of cash inflows and outflows.

Cash Inflows

The primary sources of cash inflow for a farm or ranch business are crop, livestock and livestock product sales. Some enterprises, such as a dairy, generate a relatively even flow of cash into the farm business over the production year. Other enterprises like corn or feeder livestock result in sporadic cash inflows as sales are lumped into relatively few transactions during the course of the production period.

Another source of cash inflow may be realized from payments from participation in government commodity programs, income from custom work performed, and co-op dividends. Cash may also flow into the business from the sale of capital assets such as from the sale of land, buildings, machinery, breeding livestock and tools.

Borrowed money is another source of cash flowing into the farm/ranch business. Borrowed money can take the form of short-term loans to cover operating costs, intermediate-term loans for assets such as machinery and livestock, or long-term loans such as farm mortgages on land and buildings.

Cash Outflows

One of the largest uses of cash in the farm/ranch business is for the purchase of production inputs. Expenses for production inputs include money spent for seed, fertilizer, chemicals, feed, hired labor, repairs and other inputs.

Capital expenditures may not occur often during the business year, but can require a sizeable amount of cash. The Cash Flow Statement should include cash outlays for replacing and adding machinery and breeding livestock, and purchase of land and buildings. These outlays are important for maintaining and increasing the growth of your farm/ranch business.

During the business year, cash will have to be available to make scheduled loan payments. This outflow of cash should be included in the cash flow statement to ensure that adequate cash will be available to make the payment on time and in the proper amount so as to avoid additional financing expenses.

Additionally, family living expenditures should be included in the cash flow statement. It is important to account for the family living expenditures so as to not to penalize the business by taking money designated for farm expenditures and using it for family living. It is also important to account for family living expenses in order to insure that needed money will be available in a timely fashion.

How to Use a Cash Flow Statement

Already discussed is how a cash flow statement records the timing and size of cash inflows and outflows that occur over a given accounting period. The projected cash flow statement is completed at the beginning of the accounting period, usually on a monthly

basis, to estimate ending cash balance for each period (month). If the ending cash balance is negative in any month, this is indicative that adjustments will have to be made to the cash flow plan. Adjustments will have to be made in the timing of either income or expenses, or plans will have to be made for additional borrowing to cover the cash shortage. This is the first use of the cash flow statement.

Another use of the cash flow statement is to monitor business performance over the accounting period. During the course of the business year, prudent managers will keep a record of actual cash inflows and outflows as they take place. These managers then compare the actual cash flow statement with the projected cash flow statement to see if things are going as planned. If deviations from the plan are discovered, these managers will devise remedies for solving previously unforeseen problems, or to take advantage of opportunities not anticipated. By using the cash flow statement in this manner, managers are able to act on opportunities or take corrective action while a problem is still small rather than let a cash flow problem in one month grow over time.

Solving Cash Flow Problems

Most farms and ranches experience cash flow problems at one time or another. As mentioned, adjustments will have to be made in the timing of either income or expenses, or plans will have to be made for additional borrowing to cover the cash shortage. It is easy to say that adjustments will be made, but it is helpful to know some strategies for dealing with cash flow problems. Each of the strategies discussed below may work by themselves; however, often a combination of strategies will yield the best results.

Improving profitability. Cash flow problems may be the symptom of the greater problem of low profitability. In approaching cash flow problems, first analyze profits and profitability of individual enterprises. Enterprise analysis is a method that can be used to pinpoint profitability problems of individual enterprises. It may be possible to decrease production expenditures, or use marketing strategies to achieve a higher market price and greater gross revenues. Increasing the profitability of the individual pieces of the farm business is often the best way to remedy cash flow problems for the entire business. It may be that an individual enterprise cannot be made profitable and a change in production plans is necessary.

Changing production plans. A careful examination of the combination of enterprises on the farm may indicate that a different set of cropping enterprises or the addition/deletion of a livestock enterprise would increase overall profitability and improve cash flow.

Managing expenditures. A common strategy among farm and ranch families is to become the lowest cost producer that could be achieved. Lowering production costs is an effective way to improve the cash flow of the business. Sometimes, enterprise analysis will indicate that different inputs or a lower quantity of current inputs could be used to produce goods for sale. The caution about lower input costs is that managers want to make sure that they reduce the level so far that economical levels of output are no longer achieved. Sales dollars are generated by having product for sale. Managers need

to scrutinize every cost to see if input reductions can be made without adversely affecting performance and profitability.

Achieving higher income. One of the easiest methods to achieving higher incomes is to obtain a higher market price for products sold. Better commodity marketing is a key to achieving higher prices and thereby higher incomes. A detailed marketing plan is an important step towards higher incomes. Marketing plans may be as simple as spreading sales throughout the marketing year to complex marketing plans that employ more complex marketing strategies using futures and options. While greater farm profitability should be the main goal in formulating a marketing plan, the cash flow implications of timing the sales of commodities should also be considered.

Leasing or renting. The high cost of land, buildings and machinery may make purchasing these assets financial un-feasible. Down payments and scheduled loan payments may place such a burden on cash flow that purchasing is not feasible. Leasing or renting may enable the manager to gain the use of an asset without the longer-term financing obligations. While cash will be needed to make lease or rent payments, the amount of cash necessary may be lower than purchasing and would enable some cash to be available to meet other obligations.

Reducing living expenses. One strategy for improving cash flow problems has always been to reduce expenditures for family living expenses. Once cash expenditures are fully accounted, many farm/ranch families are surprised by how much they spend for personal living expenses. It may not always be possible to reduce family living expenses, but farm/ranch families should fully understand the differences between necessities and wants. It may be prudent to base family expenditures on the performance of the farm business and/or off-farm income.

Debt structure. Cash flow problems are sometimes caused by an imbalance in the structure of business debt. Short-, intermediate- and long-term debts should be balanced against the assets that were acquired with the financing. Some business managers use short-term or operating loans to finance the purchase of intermediate- and long-term assets. Normally, operating loans are used to purchase variable inputs such as seed, feed, fertilizer, chemicals, others. These loans are then paid back as the commodities are sold. The ideal situation is to have all loans be self-liquidating loans. Self-liquidating loans are paid from the profits generated by employing those assets in the business. A proper financing program for loans would match the input's life and pattern of earnings with the length of repayment schedule on the loan used to obtain the input. If a drought year results in insufficient receipts to cover the operating loan, rolling this loan over to the next year may cause cash flow problems. Perhaps you should refinance the loan over a longer period so the cash shortfall can be absorbed over several production periods. However, while restructuring business debt may alleviate short-term cash flow problems, if the business is not profitable over time, debt restructuring may just prolong the inevitable by simply prolonging problems rather than finding the solution.

Selling assets. Selling assets is usually a drastic measure for dealing with cash flow problems. However, in some situations, selling assets may be justified. Selling assets that do not contribute to the profitability of the business may generate needed cash. This strategy may work in the short-run and for any one particular asset, can be used only once. Before selling business assets, an in-depth long-term financial analysis of the business should be undertaken to understand the impact of these actions used to correct a cash flow problem.

Cash Management

There is nothing magical about good cash management. A few simple considerations will lead to proper management of the business cash flow. Cash flow management really means:

- Knowing when, where, and how cash needs will occur,
- Knowing the best sources for meeting cash needs;
- Knowing alternatives for managing cash flow problems and,
- Being prepared to act on the alternatives when the need occurs.

The starting point for avoiding a cash crisis is to develop a cash flow projection. Smart business owners know how to develop both short-term (weekly, monthly) cash flow projections to help them manage daily cash, and long-term (annual, 3-5 year) cash flow projections to help them develop the necessary capital strategy to meet their business needs. They also prepare and use historical cash flow statements to gain an understanding about where all the money went.

Cash Flow Statement Example²

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
CASH INFLOWS													
Beg cash bal	1258	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1258
Native Grass	667	667	667	-	-	-	-	-	-	-	-	-	2000
Cash Corn	-	8357	8357	-	-	-	-	-	-	-	-	34800	51314
Soybeans	-	-	26726	-	-	-	-	-	-	-	-	-	26726
DCP payments	6145	-	-	-	-	-	-	-	-	-	-	-	6145
Other govt	-	366	-	-	-	-	-	-	-	-	-	-	366
Custom work	-	-	-	-	4867	-	-	-	-	-	9333	-	14000
Other farm	6748	6748	6748	6748	6748	7748	6748	6748	6748	6748	6748	7748	82976
N-Farm wages	2833	2833	2833	1833	1833	1833	1833	1833	1833	1833	2833	2833	27000
Total inflow	17849	19971	48333	9581	14246	10581	9581	9581	9581	9581	19815	46181	213785
CASH OUTFLOWS													
Seed	-	-	-	8917	5632	-	-	-	-	-	-	-	14549
Fertilizer	-	-	-	-	3615	-	-	-	-	-	-	-	3615
Chemicals	-	-	-	-	12169	-	-	-	-	-	-	-	12169
Crop insur.	-	-	-	-	-	-	-	-	-	2131	2410	-	4541
Drying fuel	-	-	-	-	-	-	-	-	-	-	2882	-	2882
C. Labor	-	-	-	-	-	-	-	-	-	362	362	-	723
Fuel & oil	-	-	-	700	1400	700	-	-	1400	2100	700	-	7000
Repairs	-	684	684	1368	2053	1368	684	684	2053	2737	684	-	13000
Custom hire	-	-	-	-	800	-	-	-	-	-	-	-	800
Labor	-	-	-	667	667	667	-	-	-	667	667	667	4000
Land rent	-	-	-	-	7000	-	-	-	-	-	7000	-	14000
M & B leases	2741	2741	2741	2741	2741	2741	2741	2741	2741	2741	2741	2741	32882
RE taxes	-	-	-	-	1800	-	-	-	-	1800	-	-	3200
Farm insur.	-	5000	-	-	-	-	-	-	-	-	-	-	5000
Utilities	475	475	475	475	475	475	475	475	475	475	475	475	5700
Misc.	208	208	208	208	208	208	208	208	208	208	208	208	2500
Farm. living	3417	3417	3417	3417	3417	3417	3417	3417	3417	3417	3417	3417	41000
Income taxes	-	-	5000	-	-	-	-	-	-	-	-	-	5000
Min and bal	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	10000
Tot. outflow	7841	13525	13525	19493	42776	10576	8525	8525	11294	17437	22555	8508	173581
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
LOAN PAYMENTS													
FCS	-	-	5742	-	-	-	-	-	-	-	-	-	5742
JD Credit 1	-	-	-	-	-	-	-	-	-	-	-	8107	8107
Ida Trouble1	-	-	544	-	-	-	-	-	-	-	-	-	544
Mary Trouble	-	-	7787	-	-	-	-	-	-	-	-	-	7787
Ida Trouble2	-	-	11031	-	-	-	-	-	-	-	-	-	11031
FCS Bldg	954	954	954	954	954	954	954	954	954	954	954	954	11448
FCS Pkt	-	1179	-	-	1179	-	-	1179	-	-	1179	-	4716
Home Loan	317	317	317	317	317	317	317	317	317	317	317	317	3810
Tot loan pay	1272	2451	26358	1272	2451	1272	1272	2451	1272	1272	2451	9379	58165
Surp. or def	8637	3896	8482	-11183	-38879	-1298	-216	-1384	-2884	-9127	-8881	28296	-12962
ANNUAL OPERATING LOAN TRANSACTIONS & BALANCES													
Beg AO bal	105191	104508	101244	93501	104684	135883	136929	137145	138539	141523	150650	155741	105191
AO borrowing	-	-	-	11183	30879	1266	215	1394	2984	9127	5081	-	62240
AO int. pay	7898	732	709	-	-	-	-	-	-	-	-	8361	17654
AO prin. pay	683	3284	7743	-	-	-	-	-	-	-	-	19935	31625
End AO bal.	104808	101244	83881	104684	136883	138929	137145	138539	141623	149880	155741	135887	135887
Accrued int.	-	-	-	655	1387	2337	3295	4255	5225	6216	7270	-	-
End cash bal	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000

² This example of an income statement is taken from the FINPACK financial planning and analysis software package used by SDSU Extension Economics and represents a hypothetical sample farm

Test Yourself on Understanding Cash Flow for Management Decisions³

Indicate whether each of the following statements is true (T) or false (F) and calculate the answers to questions 19-23.

- T F 1. A statement of cash flows summarizes all cash transactions of a business during a given period of time.
- T F 2. A statement of cash flows can only be used as a statement of past performance.
- T F 3. A statement of cash flows contains the same information as an income statement, except the information is organized into operating, financing and investing activities.
- T F 4. A statement of cash flows is used primarily to report business profitability.
- T F 5. Principal payments on term loans are included in a statement of cash flows.
- T F 6. A statement of cash flows can indicate a positive change in a business' cash position at the same time the business is experiencing a negative net income.
- T F 7. Depreciation expenses are included in a statement of cash flows.
- T F 8. A statement of cash flows eliminates the need to prepare a cash flow budget in which cash inflows and outflows are broken down into monthly or quarterly time periods.
- T F 9. Projected cash expenses are reflected on a projected statement of cash flows in the period you expect to receive the item purchased, regardless of when the bill is paid.
- T F 10. A statement of cash flows is prepared for a specified period of time.
- T F 11. A cash flow statement can only be used as a statement of past performance, since it contains only historical data.

³ These assessment exercises are taken from *Business Management in Agriculture*, a video tape based educational program. *Business Management in Agriculture* was financed and produced by the Cooperative Extension Service, United States Department of Agriculture, Washington D.C., and Farm Credit Bank of St. Paul, Minnesota.

- T F 12. A cash flow statement contains the same information as an income statement, except the information is broken down into the actual months transactions occurred.
- T F 13. Principal payments on intermediate and long-term loans are included in a cash flow statement
- T F 14. The first line of a cash flow statement is usually the ending cash balance for the previous period.
- T F 15. Depreciation expenses are included in a cash flow statement.
- T F 16. Projected cash expenses are recorded on a projected cash flow statement in the month you expect to receive the item purchased, regardless of when the bill is paid.
- T F 17. A cash flow statement is prepared for a specified period of time.
- T F 18. A cash flow statement can be prepared on an annual, quarterly or monthly basis.

Use the following facts to prepare a projected annual cash flow statement for year 20X5. Some of the information may not be needed.

- Projected annual cash crop sales for 20X5 = \$100,000.
- Projected annual cash livestock sales for 20X5 = \$50,000.
- Cash balance on 12/31/20X4 = \$10,000.
- Anticipated depreciation for 20X5 = \$15,000.
- Projected family living expenses for 20X5 = \$20,000.
- Projected cash operating expenses to be paid in 20X5 = \$125,000.
- Projected annual feed purchases to be paid in 20X5 = \$20,000.
- The current operating loan balance is \$50,000. Additional operating funds can be borrowed. This farmer wants to always keep a minimum of \$5,000 in his checking account for emergencies.

Once you have prepared a projected cash flow statement, answer the following questions.

19. What is the projected total cash available for the year? _____
20. What is the total cash required for the year? _____
21. What is the projected ending cash balance? _____
22. What is the cash position before savings and borrowing? _____
23. What is the projected operating loan balance on 12/31/20X5? _____

Test Yourself on Understanding Cash Flow for Management Decisions

Answers

Indicate whether each of the following statements is true (T) or false (F) and calculate the answers to questions 19-23.

- T** **F** 1. A statement of cash flows summarizes all cash transactions of a business during a given period of time.
- T** **F** 2. A statement of cash flows can only be used as a statement of past performance.
Comment: False. A statement of cash flows can be used as a statement of past performance or projected to reflect future plans.
- T** **F** 3. A statement of cash flows contains the same information as an income statement, except the information is organized into operating, financing and investing activities.
Comment: False. A statement of cash flows includes family living expenses, loan proceeds, principal payments on loans, and the purchase of capital items, which are not included on an income statement. On the other hand, an income statement prepared using accrual accounting includes changes in inventories and changes in certain accrued assets and liabilities. A statement of cash flows includes cash sales and expenses, but there are no adjustments for changes in inventories and accrued items. Also, an income statement includes depreciation expense, which is not included on a statement of cash flows because it is a non-cash expense.
- T** **F** 4. A statement of cash flows is used primarily to report business profitability.
Comment: False. A statement of cash flows by itself tells nothing about the profitability of a business, because it includes only cash transactions and omits depreciation.
- T** **F** 5. Principal payments on term loans are included in a statement of cash flows.
- T** **F** 6. A statement of cash flows can indicate a positive change in a business' cash position at the same time the business is experiencing a negative net income.
- T** **F** 7. Depreciation expenses are included in a statement of cash flows.
Comment: False. Depreciation is non-cash expense so it is not included on a statement of cash flows.

- T F 8. A statement of cash flows eliminates the need to prepare a cash flow budget in which cash inflows and outflows are broken down into monthly or quarterly time periods.
Comment: False. A cash flow budget prepared to reflect periodic cash inflows and outflows within a year is still a very valuable management tool for projecting operating credit needs and repayment plans, as well as a valuable tool for monitoring projections versus actual cash flows.
- T F 9. Projected cash expenses are reflected on a projected statement of cash flows in the period you expect to receive the item purchased, regardless of when the bill is paid.
Comment: False. Projected cash expenses are reflected in the time period when the bill is to be paid.
- T F 10. A statement of cash flows is prepared for a specified period of time.
- T F 11. A cash flow statement can only be used as a statement of past performance, since it contains only historical data.
Comment: False. A cash flow statement is a budget or projection and should be used to reflect the cash flows of future plans.
- T F 12. A cash flow statement contains the same information as an income statement, except the information is broken down into the actual months transactions occurred.
Comment: False. A complete cash flow statement includes non-farm or non-ranch business items, family living expenses, principal payments on loans, and the purchase and/or sale of capital items, which are not included on an income statement. On the other hand, an income statement prepared using accrual accounting includes changes in inventories. A cash flow statement includes sales and purchases, but there is no adjustment for inventory changes. Also, an income statement includes depreciation as an expense. On a cash flow statement, depreciation (a non-cash expense) does not appear.
- T F 13. Principal payments on intermediate and long-term loans are included in a cash flow statement
- T F 14. The first line of a cash flow statement is usually the ending cash balance for the previous period.

- T **F** 15. Depreciation expenses are included in a cash flow statement.
 Comment: False. Depreciation is non-cash expense, so it is not included in a cash flow statement.
- T **F** 16. Projected cash expenses are recorded on a projected cash flow statement in the month you expect to receive the item purchased, regardless of when the bill is paid.
 Comment: False. Projected cash expenses are recorded in the time period when the bill is expected to be paid.
- T** F 17. A cash flow statement is prepared for a specified period of time.
- T** F 18. A cash flow statement can be prepared on an annual, quarterly or monthly basis.

Use the following facts to prepare a projected annual cash flow statement for year 20X5. Some of the information may not be needed.

- Projected annual cash crop sales for 20X5 = \$100,000.
- Projected annual cash livestock sales for 20X5 = \$50,000.
- Cash balance on 12/31/20X4 = \$10,000.
- Anticipated depreciation for 20X5 = \$15,000.
- Projected family living expenses for 20X5 = \$20,000.
- Projected cash operating expenses to be paid in 20X5 = \$125,000.
- Projected annual feed purchases to be paid in 20X5 = \$20,000.
- The current operating loan balance is \$50,000. Additional operating funds can be borrowed. This farmer wants to always keep a minimum of \$5,000 in his checking account for emergencies.

Once you have prepared a projected cash flow statement, answer the following questions.

Projected Cash Flow Statement

Beginning cash balance	\$ 10,000	
Cash operating receipts:		
Crops	\$100,000	
Livestock	<u>\$ 50,000</u>	
Total cash available		\$160,000
Cash operating expenses	\$125,000	
Feed purchases	\$ 20,000	
Family living expenses	<u>\$ 20,000</u>	
Total cash required		<u>\$165,000</u>
Cash position before savings and borrowing	(\$5,000)	
Operating loan		<u>\$10,000</u>
Ending cash balance		\$ 5,000

- 19. What is the projected total cash available for the year? \$ 160,000
- 20. What is the total cash required for the year? \$ 165,000
- 21. What is the projected ending cash balance? \$ 5,000
- 22. What is the cash position before savings and borrowing?
- 23. What is the projected operating loan balance on 12/31/20X5 \$ 60,000

Remember: the balance on the operating loan on 12/31/2004 is \$50,000.
The \$10,000 operating loan during 20X5 is added to the \$50,000 to give a projected operating loan balance on 12/31/20X5 of \$60,000.