

# Cash Flow Instructions



The Cash Flow is used to project the change in a business over a year's time. Using a balance sheet, which represents the starting point for the plan, and including planned sales, purchases, expenses, and inventory changes. Cash Flow calculates Net Cash Flow and an ending balance sheet. In addition, Cash Flow projects changes in working capital, production, and inventory summaries, and an accrual income statement.

**Net Cash Flow** is important for projecting the liquidity position of the operation. However, cash transactions frequently do not adequately describe the financial condition of a farming operation.

In addition to projecting financial progress for the year, Cash Flow calculates the business's projected net income and projected net worth change for the year as well as debt coverage and ratio analysis.

In much of the income and expense data entry, past historical values can be displayed when available. Whether or not past history should be used when planning for the future depends on how similar the coming year's production process is to past years. Most businesses establish production methods and a pattern of expense and debt payments that vary little from year to year. At a minimum, past records provide a foundation on which to build the projected amounts of income and expenses.

In **accrual accounting**, income and expenses are recognized when they are incurred rather than when they are paid or received. For example, crops grown in a given year are recognized as income in that year, whether they are sold or not.

## Crop Plan

**Crop Name** should be selected from the drop down list.

**Description** crops may be entered in any meaningful manner; i.e., by field, by farm, by type, etc.

**Acres** should enter the amount of acres this crop is to be planted on.

**Yield per acre** enter the yield per acre that is expected. We recommend that you use your crop insurance averages.

**Share Percentage** enter you share of the crop.

**Production** is acres X yield per acre X share percentage, but this number will be calculated for you.

**Quantity Sold** enter the amount of production that you plan to sell in the plan year.

**Sale Price per unit** enter the contract price or the price that you plan to sell it for.

**Quantity Fed** enter the quantity of production that you fed to livestock.

**Ending Value per unit** enter the value of production that is not being sold this plan year.

## Government Crop Loans

**Crop** select crop from drop down menu.

**Quantity** enter the number of units of the crop put under loan.

**Loan Rate** enter the projected loan rate for crops placed under loan during the planning period.

**CCC Interest Rate** enter the expected government crop loan interest rate.

**Month/Year Entered** enter the month and year the government crop loan is expected to be received.

**When Liquidated...** if the crop is to be liquidated during the planning period, enter a liquidation option, if not leave blank.

<sup>1</sup> **Method** provides three liquidation methods for a crop under government loan:

**Sell/Forfeit** allows the plan to determine whether crops should be bought back and sold or forfeited to the government.

**Buy Back & Buy for Feed** are used to buy back the crop and place it in inventory. Choose either option if the projected posted county prices (PCP) are lower than the loan rate plus interest under the market loan repayment provisions.

**Month/Year** enter the month and year of liquidation.

**Price** enter the Posted County Price (PCP).

### Market/Breeding Livestock

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**Livestock Enterprise** use the drop down list to select appropriate description.

**Number of Breeding Units** enter an approximation of the average projected to be on farm for the planning period. For example, for a dairy projecting 100 cows for six months and 150 for the other six months, enter 125.

**Sales Quantity** enter the amount you expect to sell during the planning period.

**Price per unit** enter the price you are contracted to sell them for or plan to sell them for during the planning period.

**Offspring Sold** enter the quantity of offspring to be sold during planning period.

**Sales Price** enter the price you are contracted to sell the offspring at or expect to sell them at during the planning period.

**Offspring Transferred Out** enter the amount of offspring transferred to a different livestock enterprise.

**Total Cull Income** the number of culls is calculated based on the average number of animals in the herd multiplied by a typical culling percentage. The total income is then derived using an average weight in pounds and an average price per pound. These values are multiplied together to calculate the estimated total cull income.

**Total Miscellaneous Income** is used to identify other income derived from the livestock enterprise.

**Ending Inventory Value per head** enter the value that is not being sold this plan year.

### Livestock Growing & Finishing

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**Livestock Enterprise** use the drop down list to select appropriate description.

**Number Transferred in** enter the amount that you transferred to this livestock enterprise from another.

**Number Purchased** enter the number you plan to purchase this planning period.

**Purchase Price per head** enter the price that you are contracted to purchase the livestock at or plan to purchase the livestock at.

**Number Died** enter the mortality rate.

**Number Transferred Out** enter the amount that you plan to transfer to a different livestock enterprise

**Number Sold** enter the amount you expect to sell during the planning period.

**Sales Price** enter the price you are contracted to sell them for or plan to sell them for during the planning period.

**Total Miscellaneous Income** is used to identify other income derived from the livestock enterprise.

**Ending Inventory Value per head** enter the value that is not being sold this plan year.

### Other Farm Income

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Other Farm Income defines various income items for the farm that are not directly related to either crops or livestock; i.e., government payments, contract or custom payments, insurance and interest income. Enter the total value for a particular income.

### Other Cash Inflows

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Other Cash Inflows is used to enter personal income, much of which may not necessarily be related to the business, but the income affects net worth growth, the liquidity position, and net cash flow.

**Other Personal Income** Include all cash personal income received during the year in this section. This should include all income not listed in the previous income section. When doing a plan for a corporation, enter only corporate tax refunds in this section. For a partnership, only include personal income of the partners.

**Personal Business Income** enter income from a personal business but not entering personal business expenses, enter income minus those expenses.

**Personal Interest Income** all interest earned from a personal savings account should be included even if the interest was not withdrawn from the account.

**Personal Cash Dividends** received should be included, but do not include reinvested dividends.

### Other Cash Outflows

Other Cash Outflows are expenses paid by the business, but not necessarily related to the business.

**Value of Labor and Management** it is all unpaid operator, family labor and management for the planning year. To estimate the amount, use one of the following methods:

- Ask how much would I charge if I were running this business for someone else?
- Estimate how much the operator(s) could earn in other occupations.
- Calculate a percentage; e.g., 5 - 6%, of gross income plus an hourly fee for estimated unpaid labor.

Note: In corporations where owner salaries are included in Hired Labor, skip this entry.

**Corporate Dividends** include any annual distributions of farm earnings to the corporate stockholders. Since most farm corporations are family owned, most stockholder income is probably already included under Hired Labor.

Note: Do not double count by entering the same amount here.

### Ending Balance Sheet Information

**Accrual Accounting**, income and expenses are recognized when they are incurred rather than when they are paid or received. For example, crops grown in a given year are recognized as income in that year, whether they are sold or not.

**Prepaid Expenses and Supplies** include all items purchased during the planning period that are not used until the next planning period. Typically prepaid expenses include items such as fertilizer, seed, chemicals, or purchased feed that are purchased at year's end, but not used until the following planning period.

**Growing Crops** enter the value expected at the end of the planning period.

**Accounts Receivable** enter any funds owed to the business at the end of the planning period. For example, include government payments received after the end of the planning period. Another example is the income from contract crops distributed by the contracting company after the end of the planning period.

**Hedging Accounts** enter the value of equity in hedging accounts anticipated at the end of the planning period.

**Other Current Assets** enter the value of other assets expected to be held at the end of the planning period.

**Accounts Payable** enter all remaining accounts yet to be paid at the end of the planning period. Accounts payable include amounts owed which are reported as an expense

when paid. For example, at the end of the year there might be a fuel bill yet to be paid.

Note: When in doubt about individual entries on this page, set the ending value to the beginning value.

### Projected Operating Loan

Projected Operating Loan predicts the impact of planned net cash flows on the annual operating loan requirements.

Each year's operating loan is a separate note and only this year's operating loan is projected in the plan. In this case, no annual operating loan should be entered on the balance sheet. If a balance remains on an old operating loan, include the loan on the balance sheet under current notes but not as an annual operating loan. The loan is then transferred from the balance sheet to Loan Payments & Borrowing and payments are scheduled. Newly financed capital purchases are handled on Loan Payments & Borrowing as well.

**Operating Loan Interest Expense** past history should serve as a guide. Consider total cash outflows, what percentage requires borrowing against the operating loan, and how long any balances are outstanding. Include the Beginning operating loan balance and the Beginning operating loan accrued interest.

**Operating Loan Amount Requested** enter the amount of operating loan you are requesting for the plan year.

If the Net cash flow is sufficient, this entry could be zero. On the other hand, it is advisable to document anticipated seasonal borrowing even if net cash flow is strong.

**Operating Loan Principal Payments** the assumption is to pay as much principal as possible while leaving a desired minimum amount of cash on hand.

**Ending Operating Loan Accrued Interest** calculated, only greater than zero when an ending operating loan balance exists. The value is based on anticipated operating loan borrowing and payments.

### Capital Purchases & Sales

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**Capital Purchases** include planned purchases of machinery and equipment, buildings and other improvements, land in the plan year.

**Description** enter the description or name of the capital purchase.

**Asset Type** select correct category from drop down menu.

**Purchase Price** enter the cash price of the purchase. Subtract from the purchase price the amount credited for a trade-in of machinery or equipment.

**Capital Sales** include sales of machinery, equipment, land, buildings, and other capital items. Cash generated from capital sales can either be applied to loan payments or is added to cash inflow, having a positive effect on the net cash flow.

Do not include normal production sales as capital sales.

**Description** enter the description or name of the capital purchase.

**Asset Type** select correct category from drop down menu.

**Sale Price** enter the cash price of the sale. Selling fees; such as, real estate agent and legal fees, may be subtracted from the sales price or entered as detail under miscellaneous expense in Related Operating Expense.

#### Using Capital Sales to make loan payment

To use a capital sale to make loan payments, enter the payment in the Loan Payments Section. Add the amount applied to each loan in the P & I Payment column. If the loan payment is toward a term loan, use P & I Payment detail to indicate that capital sales proceeds are being used as a source of funds for the payment. This ensures accuracy in the term debt coverage calculation.

### Loan Payment & Borrowings

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Loan Payments & Borrowings lists existing loans from the balance sheet as well as new borrowing for the plan year.

**Loan** enter the description of the loan such as who you borrowed from and for what.

**Interest Rate** enter the interest rate on the loan.

**Amount Borrowed** enter the current balance of the loan.

**Principal and Interest Payment** enter you annual payment.

**Ending Accrued Interest** calculates accrued interest from the balance sheet date until the entered last payment date and is based on the principal balance and interest rate entered.