A cash flow statement can be described as a recording of
the dollars coming in and the dollars going out of a business.
It shows where the money comes from (the inflow of cash),
and where the money goes (the outflow of cash).

Actual and Projected Cash Flow
A record of cash inflow and outflow that has already occurred
in a business is an actual or historical cash flow. An estimate or
forecast of cash inflow and outflow into some future period is a
cash flow projection. The actual cash flow of a business provides
important information for making a cash flow projection into
the future. The cash flow projection provides information on
the cash-generating ability and the cash requirements of a busi-
ness, and it indicates the timing of both.

Total Business and Partial Business Cash Flow
A cash flow can be set up for either the entire farm business
(including family living expenses and nonfarm income), or it
can be set up to study only a segment of the business, such as
a specific crop or livestock enterprise. A cash flow projection
also can be used to evaluate the cash inflow and outflow effect
of a proposed business expansion.

Long-Run Profitability vs. Short-Run
Feasibility
Two management questions that need to be studied
regarding proposed business changes are:
1. Will the changes be profitable in the long run?
2. Will the changes be feasible in the short run?

Long-run profitability refers to a period of 5 to 10 years or
more. Long-run profitability is usually studied through the use
of projected income statements. With an income statement,
capital expenditures are prorated over the life of the assets
using depreciation methods.

Short-run feasibility refers to the income-generating ability
of a business in a short period of time, usually 1 to 5 years.
Short-run feasibility is usually studied through the use of
a projected cash flow. Capital expenditures are counted in
the period they are actually paid. Projected cash inflow and
outflow during the period are compared, including principal
and interest payments as well as normal expenditures and
receipts.

The Cash Flow Projection form inside this publication has
been developed to project the operating loan balance of a
farm business for each monthly period. Total farm and family
cash flow projection is illustrated on the form. Two Microsoft
Excel versions of this form and a blank form to hand-fill out
are available at: www.AgManager.info/tools. They are titled
KSU-Integrated Financial Statements (includes Balance Sheet
and Income Statement) and Monthly Cash flow for Operating
Loan Determination.

Preparing a Cash Flow Projection
Information for preparing a cash flow projection comes
from many sources including:
1. Records of actual cash flow or other farm records
   from past years.
2. Tax returns.
3. Publications listing investment requirements
   for crops and livestock enterprises (to determine
   projected periodic cash payments).
4. Publications listing feed requirements for livestock
   enterprises.
5. Price and yield estimates.

A cash flow projection may be on a monthly, bimonthly,
quarterly, semiannual or annual basis. The cash flow projection
form on the next pages is designed to be used on a monthly
basis; however, it can be used for periods other than one month
in length. For example, it may be used on a quarterly basis by
using the first four monthly columns as quarters changing
the column headings to read: 1st, 2nd, 3rd and 4th quarters.
The “Annual Estimate” column should be filled in first.
Then, the annual estimate may be allocated to the various
months or periods. To illustrate the use of the Cash Flow
Projection form, a sample set of figures has been recorded on
the provided form.

In the example, line 16 shows the total cash inflow and line
41 shows the total cash outflow. Net cash flow is the differ-
cence between cash inflow and cash outflow, and is shown on
line 42 for the annual estimate and for each monthly period.
The net cash flow may be positive or negative. If the cash
inflow for the period is greater than the cash outflow for the
period, the net cash flow is positive. If the opposite is true, the
net cash flow is negative. For example, the January projected
total cash inflow of $72,341 is greater than the total cash
outflow of $24,950 so the net cash flow for January is $47,391.

The projected cash balance and operating loan balance for
each month is calculated on lines 43 and 44, respectively. The
operating loan and/or cash carried over from the last period
(starting balance for this period) should be written in the
appropriate space after the captions on lines 43 and 44. In
Continued on back page
# CASH FLOW PROJECTION FOR OPERATING LOAN DETERMINATION

**for Joe and Jean Farmer 2019**

## CASH INFLOW ITEMS

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**TOTAL CASH INFLOW**

(Assumes Lines 1 through 15) 16 $776,635 $72,341 $2,341 $2,341 $2,341 $2,341 $2,341 $118,341 $2,341 $2,341 $429,274 $20,341 $119,954

## CASH OUTFLOW ITEMS

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**TOTAL CASH OUTFLOWS**

(Assumes Lines 17 through 40) 41 $785,094 $24,950 $37,400 $104,370 $88,000 $14,300 $67,200 $117,700 $11,800 $62,084 $26,820 $75,150 $155,320

## NET CASH FLOW


## CASH BALANCE

Starting: 43 $12,532 $59,923 $24,864 $0 $0 $0 $0 $0 $0 $0 $94,249 $39,439 $4,073

**OPERATING LOAN BALANCE**

Starting: 44 $0 $0 $0 $77,166 $162,825 $174,784 $239,644 $239,003 $248,462 $308,205 $0 $0 $0
the example on the inside fold, the operating loan from the previous December is paid off and a $12,532 cash balance exists. For each monthly period, the projected operating loan balance is determined by adding to or subtracting from the previous month’s cash balance and operating loan balance. For example, net cash flow for February was $-35,059. Since the cash balance of $59,923 in January is larger than this, the negative cash flow can be a reduction in cash funds and operating funds are not yet needed. In March, a net cash flow of $-102,029 depletes the cash balance and $77,166 of operating loan funds are needed.

A positive net cash flow for a month has the effect of reducing the previous month’s projected operating loan balance. If the net cash flow for a month is greater than the projected operating loan balance for the previous month, the difference is displayed as a Cash Balance and the Operating Loan is zero (see October for an example of this).

The projected operating loan balances (line 44) for each month can be used as a guide in projecting the approximate amount of loan funds needed and timing of the loan fund needs. Keep in mind that you will need to keep some cash in checking, so your operating loan balance will be understated by that amount.

What Will a Cash Flow Projection Do?
As farm businesses grow and as larger quantities of cash are needed, a cash flow projection becomes a more essential tool in the financial management of farm businesses. A cash flow projection provides the farm operator with a basis for studying the financing of the business. It indicates how much needs to be borrowed and when it is needed.

A cash flow projection provides for “control” of the business. By comparing the projected cash flow to the actual cash flow that occurs, the variance of each item can be noted. If receipts are less than expected or expenses more than expected, the cash flow will alert the manager to a possible problem.

A cash flow projection provides the basis for planning additional investments in the farm business. To be sound, an investment must be profitable in the long run. A cash flow projection can help determine if the farm business generates enough cash to make principal and interest payments if the investment was financed.

For further information on other farm financial management topics, see the following publications:
- Financial Ratios Used in Financial Management, MF270
- Balance Sheet - A Financial Management Tool, MF291
- Income Statement - A Financial Management Tool, MF294