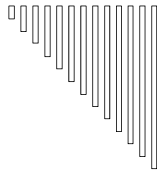


Financial Management


Chapter 8 Part 2 Excerpts

Farm Management: Principles and Strategies, Kent Olson, 2003



Cash Flow Management


Farm Management: Principles and Strategies, Kent Olson, 2003



A projected cash flow has two purposes

- Allows adjustment to timing of cash flows to improve the liquidity of the business and to decrease interest costs and capital needs.
- Allows the comparison of projected to actual cash flows and adjust plans as conditions change


Farm Management: Principles and Strategies, Kent Olson, 2003



Projecting a Cash Flow Budget

1. Develop the crop and livestock production plan
2. Estimate crop production levels and livestock feed requirements
3. Estimate cash receipts
4. Estimate other income
5. Estimate cash operating expenses


Farm Management: Principles and Strategies, Kent Olson, 2003



Projecting, cont.

6. Estimate personal and non-farm cash expenses
7. Estimate capital purchases and sales
8. Calculate the scheduled principal and interest payments
9. Estimate beginning balances; determine minimum cash balance
10. Enter this information and complete the flow of funds summary


Farm Management: Principles and Strategies, Kent Olson, 2003



Uses of a Cash Flow Budget

- Evaluate changes in timing of sales
- Consider changes in timing of expenditures and debt repayments
- Develop a borrowing and debt repayment schedule
- Assess value of potential discounts
- Calculate tax impacts of alternatives

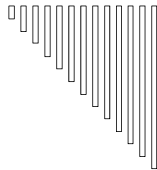
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Uses, cont.

- Balance short and long-term debt
- Observe interdependence of farm, nonfarm, and personal cash flows
- Estimate sensitivity of initial plan to unexpected changes
- Monitor and control the financial side of the farm


Farm Management: Principles and Strategies, Kent Olson, 2003



Financial Control

Establishing standards
Measuring performance
Taking corrective actions


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Establishing standards

- Expected interest rates
- Needed borrowings
- Timing of borrowing


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Measuring performance

- Monitoring financial conditions
- Recording actual performance


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Taking corrective actions

- Rules to change the plan if conditions change
- Rules to change the implementation of the financial plan
- Change goals and standards

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Cash Flow Deviation Report, Second quarter -- from Figure 8.2

	Budget	Actual	Deviation	
	\$	\$	\$	%
Milk sales	244,000	271,583	27,583	11.3
Crop chemicals	12,500	1,633	-10,867	-86.9
Crop misc.	2,200	2,483	283	12.9
Purchased feed	65,200	38,760	-26,440	-40.6

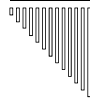
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Cash Flow Deviation Report, Year to date -- from Figure 8.2

	Budget	Actual	Deviation	
	\$	\$	\$	%
Milk sales	492,000	521,948	29,948	6.1
Crop chemicals	12,500	10,763	-1,737	-13.9
Crop misc.	2,800	3,024	224	8.0
Purchased feed	147,800	216,865	69,065	46.7

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Cash Flow Deviation Summary, -- from Figure 8.2

	Second quarter Deviation		Year to date Deviation	
	\$	%	\$	%
Milk sales	27,583	11.3	29,948	6.1
Crop chemicals	-10,867	-86.9	-1,737	-13.9
Crop misc.	283	12.9	224	8.0
Purchased feed	-26,440	-40.6	69,065	46.7

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