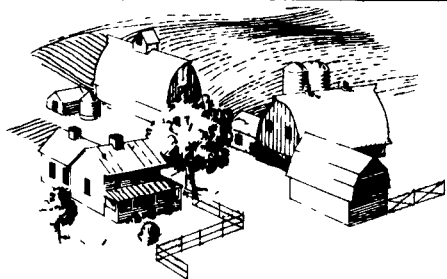


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MANAGEMENT

CAN YOU AFFORD TO FARM?

Alan W. Strock
Multicounty Farm
Management Agent
Lancaster, Chester
And Portions
Of Berks County

Cash Flow Budgets

Do you really know what standard of living your farm business can provide you? If not, then prepare a farm cash flow projection to find out.

Cash management is the use of cash flow budgets and cash flow statements to measure and project the movement of cash, personal and business, in and out of your business. An accurate cash flow will reveal a plan's financial feasibility.

An accurate cash flow projection is like a road map and will help you chart your course for the foreseeable future.

Why Do It?

Why should you take time to figure out a cash flow budget and/or cash flow statement? Because the more control you have over your cash flow, the more profitable your business will be.

A dozen other reasons to create your cash flow projection are to:

- Show the seasonal timing of cash in and out of the business.
- Show lenders the loan repayment capacity of your business, especially in times of transition.
- Reveal if there is enough cash from the business to support an investment in capital, or should borrowed funds be used.
- Measure your farm business'

ability to meet its obligations, such as cash expenses, debt repayment, taxes, family living and capital investments (equipment, machinery, and breeding livestock).

- Determine the timing and limit for your line of credit.
- Act as a budgeting aide to limit personal and farm expenses. Don't just spend until the income is gone.
- Reveal the farm business's ability to support family living requirements.
- Reveal if there is enough cash being generated to maintain or increase the capital assets.
- Compare to prior year's statements to reveal management problems.
- Help in formulating your marketing plan, so income matches expenses.
- Meet a requirement of a first-time borrower.
- Provide information about the liquidity of the farm.

What Is It?

A cash flow statement measures the liquidity of a farm business. Liquidity is a measure to see if a farm business is generating enough cash from normal operations to meet all obligations of the business, i.e., cash expenses, debt repayment, taxes, family living, and capital investments (equipment, machinery, breeding livestock).

The cash flow statement is very helpful as a financial analysis tool when used with the income statement and balance sheet to determine total financial health.

Cash Flow Vs. Profitability

Remember, cash flow is *not* a measure of profitability.

Accounts such as inventory, accounts payable and receivable, and depreciation — used to calculate a farm's profitability — are not used in a true cash flow projection. That is why a farm that easily pays its bills may not be very profitable.

Bills Get Paid But No Profit

The profit and loss statement may indicate the farm business is generating little or no profit but there is still no problem.

Paying bills in a timely manner. The following are six scenarios where the farm isn't profitable but the bills are paid in a timely fashion:

1. Little or no debt, so no principal payments are to be made from cash income.
2. Increasing debt, line of credit, or payables. Your farm vendors or bank is paying your cash operating expenses.
3. Living off inventories. Inventory sales creates cash flow, but your spending the prior year's profits.
4. Living off depreciation. Tax depreciation exceeds new capital investments and principal payments. A day of reckoning comes when the machinery wears out.
5. Low family withdrawals.
6. Living expenses provided by off-farm wages.

Profitable, But Bills Don't Get Paid

The income statement (profit and loss statement) may indicate the farm business is generating a reasonable profit, but there is still a cash problem. How can that be?

Here are five scenarios where this can occur:

1. Fast farm growth. Inventories are growing along with net worth, but these inventories are not generating any income.
2. Rapid paydown of debt. Principal payments greatly exceed depreciation, and the majority of debt is short term.
3. Large family withdrawals. Family living exceeds farm profits — either large unexpected family expenses or not living within the budget.

4. Unusual conditions. High inventory prices, or high crop yields, but crops were not sold by years end.

5. High income and social security taxes. Taxes come due the same time as spring crop expenses.

Monthly Cash Flow Budgets

The cash flow budget most commonly used by farmers is the yearly budget broken down by month. The cash flow budget looks like a calendar with income and expense categories that projects each month's cash inflow and outflow from business operations, personal sources, financing activities (new loans and repayments), investments in capital assets, and family living.

For Example:

January shows a cash surplus of \$3,000.

April shows a cash deficit of \$3,000.

The money could be invested, short term, at 4 percent interest for 90 days and gain \$30 interest. It will then be used during the April cash deficit time avoiding possible financing and adding \$30 to the cash inflow.

Thirty dollars does not seem like

a lot of money, but it will add up when this might be done several times throughout the year, especially if the amount is larger than \$3,000. The cash flow budget adds to the timeliness of the farm business and improves efficiency in cash management.

Just Do It!

I strongly suggest that you take time to prepare and analyze a cash flow budget as well as a cash flow statement for your farm business.

By annually creating a cash flow projection and then comparing that projection to the actual results, you will be able to set realistic debt repayment, capital purchase, and family withdrawal goals for your farm.

You will establish the standard of living your farm can afford your family.

For Assistance

If you would like assistance doing this or have any questions regarding this and other farm management issues, contact your local Penn State Extension Office.

In today's agricultural economy, every measure that can improve farm profitability is worth the time investment.

Winter Convention

WINAMAC, Inc. — The International Harvester Collectors Club, a not-forprofit organization, was formed here in July 1990 to preserve the history of International Harvester Co.

The club started with 200 members in July of 1990 and now has more than 2,300 members and growing strong. The second annual meeting was held at Edgerton, Wis. in September 1991 and the third annual meeting was held in June of 1992 at Marion, Ohio.

The fourth meeting will be held this year at the Missouri River Valley Steam Engine Show at Booneville, Mo. on Sept. 9-12. Plans are to make this display the largest gathering of International Harvester Equipment, tractors, and memorabilia in the country. The International Harvester

Collector Club held their first annual winter convention at the Hollidome Holiday Inn in Elgin, Ill. Feb. 26-28. It was sponsored by the Illinois Chapter #2 of the club. The meeting was attended by approximately 1,000 people and 30 vender tables with I H parts, toys, literature, and memorabilia.

Several I H retirees attended the convention, demonstrations, and the evening buffet banquet. There were buses that took the ladies to several shopping malls, pottery shop, and craft displays, which were well attended.

For more information of the club, contact Clyde Berkshire, Box 237, Royal Center, IN 46978, (219) 643-3115, or write the International Harvester Collectors, R.R.2, Box 286, Winamac, IN 46996.

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