# Financial Analysis From A Lender's Perspective

Editor's Note: This is the fourth of a seven part series to explain how Farm Credit analyzes farm and ranch businesses. A different aspect of financial analysis is addressed in each issue.

# Cash flow planning — helping you stay in control

s 1992 shapes up to be a tough economic A year for many farmers and ranchers, it's more important than ever to maintain timely financial control of your business. One helpful tool to accomplish this task is a cash flow statement.

Unlike an income statement or balance sheet — which provides information on profitability or solvency on an annual basis a monthly cash flow statement allows you and your lender a means to assess the cash position of your business and understand your true borrowing needs within a more precise time

### What is a cash flow statement?

A cash flow statement is simply a summary of all cash sources such as cash receipts; capital sales; non-farm income; new borrowings; all cash outlays, including interest paid; capital purchases: family withdrawals; and principal payments.

In addition, the following should be monitored monthly for their cash flow impact:

- seasonal planting and harvest requirements:
- inventory buildup and subsequent seasonal sales:
- accounts receivable;
- favorable selling terms;
- unusual purchasing conditions;
- purchase discounts;
- real estate or income tax; and
- · capital expenditures.

Monitoring these areas can help you chart when you receive income, when you pay expenses, and when you need money consequently allowing you to determine whether you need to borrow or reschedule payments.

### What should a cash flow statement include?

There are many formats for a cash flow statement, but a recommended version shows four columns: projected monthly, actual monthly, projected year-to-date, and actual year-to-date. In addition, columns for percentage deviation between projected and actual monthly and year-to-date figures can be useful in putting absolute dollar-value differences into relative terms (i.e., 25 percent can be the difference between \$10,000 projected and \$12,500 actual, or between \$500 projected and \$625 actual).

It's important to project and analyze monthly cash flow so that you may capitalize on opportunities or make adjustments should a trouble situation arise. Yet, it's also necessary to compare year-to-date information to keep isolated, abnormal deviations in perspective as well as relate subsequent years' performances.

### How does cash flow planning help lenders?

A cash flow statement helps you and your lender establish loans and repayment plans that best fit your business cycle by pointing out the fluctuations and resulting cash requirements. In addition, this kind of planning shows lenders that you have goals, a strategic direction, and a sound plan for repayment of debts and other commitments. A cash flow statement is a business tool for making intelligent decisions about the direction your operation will take. Without this type of information, both producers and lenders can only speculate about future business needs. �

\*Adapted from

Adding a Cash Flow Statement to the Tools of your Trade, Bill Lipinski, Financial Partner, Spring 1992

Cash Flow Planning Keeps People out of Trouble," Jonas B Kauffman III, Hoard's Dairyman

Next we will look at analyzing loan repayments.

# USDA Releases Pesticide Rule

HARRISBURG (Dauphin Co.) - USDA has released its final rule on pesticide recordkeeping requirements which went into effect on May 1.

The Pennsylvania Pesticide Control Act of 1973, which is administered by the Pennsylvania Dept. of Agriculture (PDA), already requires pesticide record keeping for private and commercial applicators.

PDA regulations for private applicators require that the following data msut be recorded for restricted use pesticides: date of application, crop to which applied, field of application, total amount of pesticide used, name and ID number of certified applicator, pesticide used (brand name and formulation), application rate, address of application site and time application completed (when labeled with a re-entry time).

PDA regulations for commercial applicators require that the following pesticide record data elements for all pesticide applica-

tions: date of application, total amount of pesticide used, name and ID number of certified applicator, pesticide used (brand name and formulation), application rate, address of application site and time application completed when labeled with a re-entry time).

Another requirement in the USDA regulation is for commercial applicators to provide a copy of the pesticide record to the customer within 30 days of an RUP application. PDA intends to revise its regulations to include this in the future. However, the PDA requirements will not pertain to all RUP applications, only to those applications made in the production of an agricultural commodity.

Penn State Cooperative Extension will be offering pesticide recordkeeping forms to all private applicators that request them. These forms are 8½ x 11 sheets that can easily be stored in your filing cabinet. Please call your local extension office for more information.

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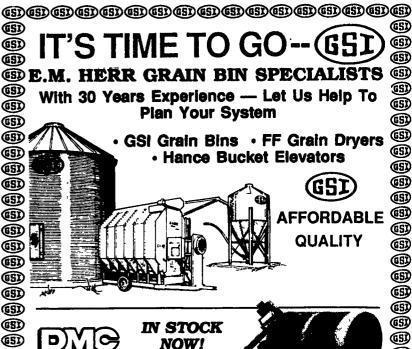
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