Section 11: Cash Flow

After each topic in this section there is a set of questions designed to help you examine and evaluate the cash flow of your business.

Cash Flow Analysis

Generating cash flow is essential to the success of operating a fruit farm business. Cash flow is the most immediate need for any business to survive in the short term, while profitability is critical if a business is to survive in the long run.

Cash flow is often overlooked, especially if you have been able to meet financial obligations. It is important that you construct a cash flow statement for the following reasons:

- A cash flow statement verifies the accuracy of your financial record keeping. A cash flow statement in which the cash flow balances (inflow = outflow) shows that all cash transactions have been included. ***If the cash flow statement does not balance – other financial statements are likely to be inaccurate*** because some financial transactions could have been: left out, double-counted or transcribed inaccurately.
- A cash flow statement shows HOW cash comes into the business (sources of cash) and HOW it is expended (uses of cash). Sustainable businesses generate most of their cash through operating activities (sale of products and/or services).

EXERCISE: Complete the Cash Flow Worksheet #14 found in the appendix to determine if all cash can be accounted for in your business.

The following information may be useful in putting this worksheet together;
- balance sheet for beginning and end of the year
- lender statements or printout of loan activity
- farm and personal check register and or bank statements
- a listing of capital purchases and sales
- income statement
- tax return or accounting book , or printout of financial transactions by category

Inflow should equal outflow (Cash inflow-cash outflow=0). If cash inflow is not equal to cash outflow, how far is it off? If it is within 1% of total cash inflow it may not be worth the time to try to figure out exactly where the error is. Also consider the actual amount out of balance; a $10,000 error is worth spending time correcting – a $100 error, on the other hand, may not be worth the effort or the time.

a. Have you accounted for all funds coming into the business and all funds going out of the business? **Yes No**

Does cash in equal cash out? **Yes No**
(Answering this question should be a high priority.)

When a cash flow statement does not balance it may mean that you have forgotten to include any of the following: a capital purchase or sale, a new loan or a payment of a loan, a source of income, an expense, personal fund (or a personal loan used in the business), a family draw from the business, the payment of personal income taxes, etc.

An example of double counting is where the purchase of apple trees has been counted as a capital purchase and also an operating expense.

A keyboard error or an inaccurately transcribed number could also be the cause of a cash flow error.

If you had to make adjustments to get your Cash Flow Worksheet to balance, please revisit your other financial statements (Balance Sheet and Income Statement). Did the changes made in the Cash Flow Worksheet affect the accuracy of the initial Balance Sheet and Income Statement? Make corrections to these statements if necessary.

A healthy business generates much of its cash from Operating Activities. Cash farm income should be great enough to meet expenses and personal needs and contribute significantly to reinvestment in the business, principal repayment and building a cash reserve for the future.

2. Cash Flow from Investment Activities

a. Cash coming in: selling farm assets (machinery, land & buildings, stocks & certificates)
b. Cash going out: capital purchases (new orchards, machinery, land & buildings and stocks and certificates)

How does your business currently handle cash flow?

EXERCISE: Transfer information from Cash Flow Worksheet #14 to Statement #4: Cash Flow Statement. Examine your completed cash flow statement and analyze the sources of cash and the recipients of cash for your business.

A healthy business generates enough income to meet expenses, make debt payments, reinvest in the business, and provide a return to the owner or operator. A business that is retooling or reorganizing to be competitive in the market place may need to acquire more cash than what the business can currently generate (through production and services) to make the changes necessary to improve income.

The Cash Flow statement provided in this workbook divides cash flow into four categories:

1. Cash Flow from Operating Activities

a. Cash coming in: cash farm receipts (sale of produce, bin rental, storage rental, custom work, etc.) and non-farm income used in the business
b. Cash going out: cash farm expenses, personal withdrawals for family living (personal debt payment, personal taxes, etc.)

Businesses ordinarily sell off equipment as it ages and as repair bills begin to climb, or the equipment no longer meets the needs of the business (a wide mower may be sold off in order to purchase a narrow mower for closer orchard spacing). When a business is responding to a rapidly changing marketplace it is important to carefully analyze what equipment is necessary for normal operations and timely sales. This is an important factor in the generation of future income. Selling off machinery, land and other assets to raise cash is generally one of the last options considered but may, at times, be appropriate and necessary based on the goals of the business.

Likewise, capital purchases need to be carefully considered and timed when cash is tight and profit margins slim. Capital purchases should be planned for in advance, and be a part of a strategic plan for maintaining or growing the business.

3. Cash Flow from Financing Activities

a. Cash coming in: Money borrowed (increase in operating debt, short- term money borrowed, intermediate and long-term borrowing, non-farm money borrowed in the business)
b. Cash going out: Principal payments for short, intermediate and long- term notes, decreases in operating debt

Many businesses borrow money to continue daily operations as they wait for inventories to be sold off and accounts receivable to come into the business. Many businesses also borrow when reinvesting in the business to maintain or improve the prospects for future income. Increasing borrowing should be carefully analyzed. Matching the structuring of debt repayment to future income is critical to cash flow.

4. Cash Flow from Reserves

a. Cash coming in or going out from farm cash, checking and savings.

It is very important to maintain a cash reserve (savings and/or line of credit that exceeds normal annual requirements) for unforeseen circumstances (breakdowns, weather disasters, major repairs or replacements) that may either affect the business negatively or present unique opportunities for growth or profit to a business.

The categories of cash flow show how the business cash flowed in the past year.
A cash flow statement is normally constructed annually if a business is not concerned about cash flow, but should be constructed and monitored monthly or quarterly if cash flow is a concern.

Answer the following questions after studying your Cash Flow Statement:

1. Does the majority of cash come from operating activities? Yes No
2. Is cash from financing activities in balance with my goals? Yes No
3. Can I meet current debt payments as scheduled? Yes No
4. Do I need to restructure current debt to meet payment schedules? Yes No
5. Do I have plans for new investments? Yes No
6. Can I finance new investments by selling some farm assets? Do I have excess equipment? Yes No
7. Do I need to increase my Operating or Capital lines of credit? Yes No
8. Do I have cash reserves to fall back on? Are they adequate? Yes No

Many growers construct a cash flow projection for projecting cash flow for each month for the coming year to estimate the peak cash needs to determine operating and capital lines of credit. Constructing a cash flow projection is particularly important when making changes to your business.

Reminder: A cash flow statement does not indicate business profitability (which is necessarty to survive in the long term.) It only shows sources and uses of cash. An Income Statement needs to be constructed in order to determine business profitability (see Section 10.)

Cash Flow Planning Summary

Refer back to your responses to the questions in this section and complete this summary. List below areas of improvement for the cash flow you have identified.

Cash Flow Areas for Improvement
1.
2.
3.
4.

* Debt on farm assets only not including packing and storage facilities. **Also these values are affected by yield per acre and price received per bushel. High yielding farms with strong market prices can bear higher debt per acre - $1,900. Higher density plantings, if managed well, will yield earlier and have much greater yields per acre.