



Cash Flow Your Short Term “Break Points”

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A host of weather or industry-related events, such as drought and BSE, can cause short term cash flow stress in your business. They often place you in the position where you have to make business decisions in short order. This is when pushing your pencil will really pay off ... helping you keep flexibility and objectivity in your decisions.

Fundamental to business success is satisfying each of the key aspects of *affordability*, *profitability* and *desirability* in assessing your management alternatives. “Buying feeding days” during drought is a prime example. The first step of assessing affordability relates to whether or not you can cash flow the feeding option ... if you can’t cash flow your way through, profitability and desirability aren’t even an issue. This means determining your cash flow “break points”.

Building a Cash Flow

The chart on the next page outlines the elements included in a cash flow. The cash flow budget includes only cash inflow and outflow items. These are further broken down to “operational” (receipts and expenses), “capital” (purchase or sale of assets) and “debt” (interest and principal) flows. The budget also accounts for contributions to and withdrawals from (eg. family living requirements) the business.

Further information on building a cash flow budget is provided on the Ropin’ the Web site in the “Rolling Cashflow Forecaster (2)” reference.

Work From Your Strengths

Where does the information come from to build a cash flow? Statements from your accountant, an *AgriProfit\$* or *CowProfit\$* business analysis, summaries from your accounting records, or even tax-filing information can be used as a reference for building a cash flow. Work from whatever you have available ... the result will put you in a position to make more knowledgeable decisions.

Four Step Process

A “break point” is the threshold level beyond which a choice or decision doesn’t make sense. To define the break point, or cash flow load you

can carry, your first step involves setting a base line. Estimate your cash inflows and outflows without incorporating the alternatives you’re considering to “buy feeding days”. From here to the balance of the year, include only those cash items you know will happen ... the rest are by choice dependent upon the alternative you select.

The second step is to lay out your potential scenarios and build in the cash flows relating to each. For instance, if you’re grazing down a portion of your cereals and will have to buy additional feeds, project out the associated cash expenses and revenues.

This brings you to the third step ... identifying cash shortfalls and matching them with potential sources of funds. The “break points” involved with your management options become clear. If the plan you choose to manage through feed shortages doesn’t generate sufficient cash to meet your needs and goes beyond your ability to finance, then another option needs to be pursued.

Step 4 takes you back to the 2nd step, working in different options and variations until you come to a clear and objective choice on an alternative that allows you to cash flow yourself through to when other choices or opportunities come available.

Home Stretch

At times when major decisions need to be made in short order, ensure that you’ve taken into account the short term ability of your operation to generate sufficient cash revenues to cover the additional cash loads. Identifying up front your short term break points, where cash-in is insufficient to cover cash-out, will allow you to act on your choices more quickly and with more confidence. It will also give you increased clarity when you move on to the issues of profitability and desirability of the management alternatives.

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If you have questions or require further assistance on this topic, please call the AgInfo-Center at 1-866-882-7677

Cash Flow Template

CASH INFLOW	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Nov.	Dec.
<u>Operations Revenues</u>											
Livestock Sales											
Grain & Forage Sales											
Other Operations Receipts											
<u>Capital Sales</u>											
<u>Debt - New Loans</u>											
<u>Personal Contributions</u>											
TOTAL CASH IN											
CASH OUTFLOW											
<u>Operations Expenses</u>											
Feed & Bedding											
Pasture											
Vet, Med & Breeding											
Seed, Fertilizer, Chemicals											
Fuel, Oil & Lube											
Repairs & Maintenance											
Trucking, Marketing, Comm.											
Custom Work & Paid Labour											
Rental / Share Payments											
Utilities & Misc.											
Taxes, Lic. & Insurances											
<u>Capital Purchases</u>											
<u>Debt - Term Interest & Principal</u>											
<u>Withdrawals (living & income tax)</u>											
TOTAL CASH OUT											
Net Cash Flow											
+ Opening Cash Balance											
- Line of Credit Interest											
Ending Cash Balance											