AgriLIFE EXTENSION
Texas A&M System

Cash Flow Projection for Operating Loan Determination

Overview

- A cash flow statement can be simply described as a record of the dollars coming in and the dollars going out of a business.
- It shows where the money comes from (the inflow of cash) and where the money goes (the outflow of cash).

Actual and Projected Cash Flow

- A record of cash inflow and outflow that has already occurred in a business is an actual or historical cash flow.
- An estimate or forecast of cash inflow and outflow into some future period is a cash flow projection.
- The actual cash flow of a business provides important information for making a cash flow projection into the future.
- The cash flow projection reveals the cash generating ability and the cash requirements of a business and it indicates the timing of both.

Total Business and Partial Business Cash Flow

- A cash flow can be set up for the entire farm business (including family living expenses and nonfarm income) or it can be set up to study only the business or a segment of the business.
- A cash flow projection will be used to consider the cash inflow and outflow effect of a proposed investment or change in the business.

Long-Run Profitability vs. Short-Run Feasibility

- Two management questions that need to be studied in regard to proposed business changes are long-run profitability and short-run feasibility.
- Long-run profitability refers to a period of 5 years or more and is usually studied through the use of projected income statements.
- Short-run feasibility refers to the income generating ability of a business in a short period of time, usually 1 year to 3 or 5 years.

Preparing Cash Flow Projection

- Information for preparing a cash flow projection may come from historical farm records, tax returns, and other applicable information you may have.
- A cash flow projection is made periodically – monthly, bimonthly, quarterly, semiannually or annually.

What Will a Cash Flow Projection Do

- A cash flow projection gives the farm operator a basis for studying the financing of the business.
- It indicates how much needs to be borrowed and when it is needed.
- A cash flow projection provides for "control" of the business. By comparing the projected cash flow to the actual cash flow that occurs, the variance of each item can be noted.
- A cash flow projection helps in planning additional investments in the farm business.
- A cash flow projection is also a great tool for considering "what if" scenarios and conducting sensitivity analysis.