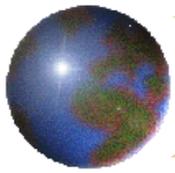


Cash Flows and Financial Management



**Agriculture
Reconstruction and
Development Program for
Iraq**



PREPARING A STATEMENT OF CASH FLOWS

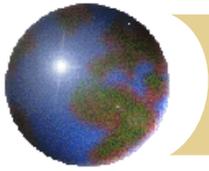
**Summarizes all cash inflows and outflows
affecting a business by**

Month

Quarter

or

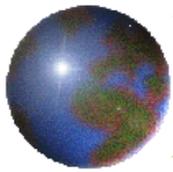
Year



**CASH FLOW STATEMENT
OR BUDGET**

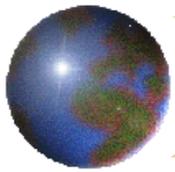
VS

**STATEMENT OF
CASH FLOWS**



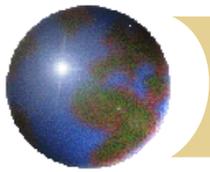
CASH FLOW STATEMENT ENABLES FARMER TO:

- ★ **Identify periods where there are cash surpluses or deficits**
- ★ **Analyze sources and uses of cash**
- ★ **Plan/project cash flow into the future**
- ★ **Monitor cash flow variances by comparing projections to actual**



USES OF THE CASH FLOW STATEMENT

- 1. PROVIDES THE BEST MEASURE OF LIQUIDITY -- YOUR ABILITY TO MEET FINANCIAL OBLIGATIONS AS THEY BECOME DUE WITHOUT DISRUPTING THE CONTINUING OPERATION OF YOUR BUSINESS.**
- 2. USED AS A PROJECTED STATEMENT, IT HELPS YOU FORMALIZE THE OVERALL PLANNING PROCESS.**
- 3. SERVES AS A FINANCIAL CONTROL TOOL, BY ALLOWING YOU TO MONITOR ACTUAL PERFORMANCE VERSUS BUDGET PROJECTIONS.**
- 4. FORMALIZES THE PROCESS OF INTEGRATING PLANS AND OBJECTIVES FOR THE VARIOUS ENTERPRISES WITHIN THE BUSINESS.**



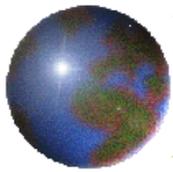
USES OF THE CASH FLOW STATEMENT (cont'd)

- 5. DIRECTS ATTENTION TO THE MANAGEMENT OF CASH RESERVES.**

- 6. BY ALLOWING YOU TO FORMULATE PROJECTION ESTIMATES FOR SEVERAL ALTERNATIVE OUTCOMES, IT PROVIDES A PRACTICAL TOOL FOR ANALYZING THE IMPACT OF RISK (UNCERTAINTY).**

- 7. HELPS YOU ASSESS THE RELATIONSHIPS AMONG YOUR PRODUCTION, MARKETING, AND FINANCING PLANS.**

- 8. AS AN INVESTMENT ANALYSIS TOOL. COMPARE CASH FLOWS PROJECTED UNDER CURRENT OPERATIONS AND MODIFIED OPERATIONS.**



STATEMENT OF CASH FLOWS

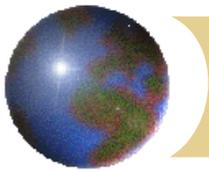
Rearranges cash flow into:

★ Operating activities

★ Investment activities

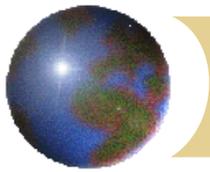
★ Financing activities

Explains changes in cash or cash equivalents for a specified period



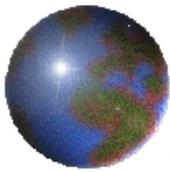
CASH FLOW BUDGET

	Jan	...	Dec	Total
CASH INFLOWS (receipts) 1. Operating income 2. Capital sales 3. Other receipts				
CASH OUTFLOWS (expenditures) 1. Operating expenses 2. Capital purchases 3. Other expenditures				
FINANCIAL SUMMARY 1. Money to borrow 2. Loan payments 3. Loan balances				



CASE STUDY

Ahmed and Zainab own and farm 130 dunum. On 100 tilled dunum, they grow 65 dunum of wheat and 35 dunum of barley. They also cash rent 500 dunum (320 dunum of wheat and 165 dunum of barley) and rent 400 dunum (200 dunum of wheat and 200 dunum of barley) on a 50-50 share lease. So, in year 2004 they farmed 585 dunum of wheat and 400 dunum of barley. They also sold 550 goats. Ahmed and Zainab work full time on the farm and have one hired man who works for them full time.



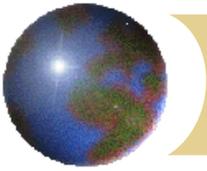
Cash Flow Statement

-1,000 New Iraqi Dinars-

Name: Ahmed and Zainab Farmer, For the period: 1/1/2004 through 12/31/2004

	Quarter 1 Jan-Mar	Quarter 2 Apr-Jun	Quarter 3 Jul-Sep	Quarter 4 Oct-Dec
Beginning cash balance	ID 8,880	ID 9,886	ID 8,628	ID 7,903
Operating receipts:				
Crops: Wheat	<u>ID38,050</u>	<u>ID19,000</u>	<u>ID 0</u>	<u>ID19,000</u>
Barley	<u>16,725</u>	<u>0</u>	<u>6,725</u>	<u>11,150</u>
Market Goats	<u>13,440</u>	<u>13,440</u>	<u>13,440</u>	<u>13,440</u>
Capital receipts:				
Breeding livestock	<u>0</u>	<u>1,560</u>	<u>0</u>	<u>1,500</u>
Machinery	<u>3,000</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total cash available	ID77,215	ID40,680	ID35,995	ID50,430
Operating expenses	ID24,975	ID34,570	ID17,955	ID28,440
Feed purchases	<u>4,500</u>	<u>4,500</u>	<u>4,500</u>	<u>4,500</u>
Capital expenditures:				
Breeding Goats	<u>0</u>	<u>500</u>	<u>0</u>	<u>500</u>
Other expenditures:				
Family living	<u>5,200</u>	<u>6,400</u>	<u>5,200</u>	<u>7,200</u>
Term loan payments:				
Principal	<u>0</u>	<u>6,000</u>	<u>0</u>	<u>3,000</u>
Interest	<u>0</u>	<u>2,880</u>	<u>0</u>	<u>5,400</u>
Total cash required	ID34,675	ID54,850	ID27,655	ID49,040
Cash position before savings and borrowing	ID42,540	ID(14,170)	ID 8,340	ID 1,390
Money borrowed:				
Operating	<u>ID40,000</u>	<u>ID40,000</u>	<u>ID10,000</u>	<u>ID10,000</u>
Term	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Payments on operating loans:				
Principal	<u>70,000</u>	<u>20,000</u>	<u>10,000</u>	<u>0</u>
Interest	<u>5,860</u>	<u>0</u>	<u>3,000</u>	<u>1,730</u>
Ending cash balance	ID 6,680	ID 5,830	ID 5,340	ID 9,660

*Amounts in the "Total" column for "Beginning cash balance," "Total cash available," "Cash position before savings and borrowing: and "Ending cash balance" do not equal the sum of the amounts in the four quarters because the ending cash balance for a previous period is carried forward to be the beginning cash balance for the next period. All other amounts in the "Total" column are the sum of the four quarters.



Statement of Cash Flows

-1,000 New Iraqi Dinars-

Name: Ahmed and Zainab Farmer, For the period: 1/1/2001 through 12/31/2001

Cash flows from operation activities

Cash received from operations

Cash received from non-farm income

Cash paid for feeding goats, purchased feed & other items purchase for resale

Cash paid for operating expenses

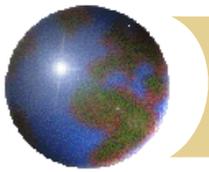
Cash paid for interest

Net cash paid for income and taxes

Net Cash paid for other operating activities

Cash withdrawals for family living

SEE HANDOUT 2



Statement of Cash Flows

-1,000 New Iraqi Dinars-

Name: Ahmed and Zainab Farmer,

For the period: 1/1/2004 through 12/31/2004

Cash flows from operation activities

Cash received from operations	+ <u>ID177,470</u>
Cash received from non-farm income	+ <u>0 -</u>
Cash paid for feeding goats, purchased feed & other items purchase for resale	<u>18,000</u>
Cash paid for operating expenses	- <u>105,940</u>
Cash paid for interest	- <u>18,870</u>
Net cash paid for income and taxes	- <u>1,200</u>
Net Cash paid for other operating activities	- <u>0</u>
Cash withdrawals for family living	- <u>22,800</u>

Net cash provided by operating activities ± ID 10,660

Cash flows from investing activities

Cash received from sale of breeding stock (other than normal culling)	+ <u>ID 0</u>
Cash received from sale of machinery and equipment	+ <u>3,000</u>
Cash received from sale of farm real estate	+ <u>0</u>
Cash received from sale of marketable securities	+ <u>0</u>
Cash received from sale of non-farm investments & retirement acct. withdrawals	+ <u>0</u>
Cash paid to purchase breeding stock	- <u>1,000</u>
Cash paid to purchase machinery and equipment	- <u>0</u>
Cash paid to purchase real estate and buildings	- <u>0</u>
Cash paid to purchase marketable securities	- <u>0</u>
Cash paid to purchase non-farm investments & retirement acct. deposits	- <u>0</u>

Net cash provided by investment activities ± ID 2,000

Cash flows from financing activities

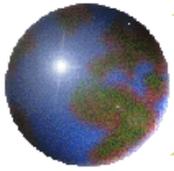
Proceeds from operating loans	<u>ID100,000</u>
Proceeds from term loans	+ <u>0</u>
Cash received from capital contributions, gifts and inheritances	+ <u>0</u>
Principal payments on operating loans	- <u>100,000</u>
Principal payment on capital leases	- <u>0</u>
Principal payment on term loans	- <u>9,000</u>
Cash dividends and capital distributions	- <u>0</u>

Net cash provided by financing activities ± ID (9,000)

Net increase (decrease) in cash and cash equivalents ± ID 3,660

Cash and cash equivalents at beginning of year ± ID 6,000

Cash and cash equivalents at end of year ± ID 9,660



SUMMARY

- ✓ **Summary of cash inflows and outflows**
- ✓ **Identifies ability to meet cash obligations**
 - ✓ **Sources and uses of funds**
 - ✓ **Identifies borrowing needs**
- ✓ **Prepared by month, quarter or year**
 - ✓ **Statement of cash flows**