



Getting to grips with cash flow management

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TURNOVER

PROFIT

**NET
CASHFLOW**



IS



What is Cash Flow?

Cash flow is the movement of money in and out of a business

Money IN (Receipts)

Less Money OUT (Payments)

= Net Cash Flow (plus or minus)



Warning Signs of a building cash flow problem

- Milk cheque spent before it is lodged
- Bank overdraft increasing
- Merchant statement balances increasing
- Credit Card balances increasing
- Becoming difficult to ensure that enough in account to meet direct debits/ standing orders

Tight Cash Flow

- Diagnose the problem

- Shortage of cash is a symptom
 - but what is the underlying cause?
- Is this cash shortage...
 - A once-off / short term problem
 - **Product price collapse, input price jump, weather**
 - An ongoing / long term problem
 - **high cost structure, high debt load**

Short Term Cashflow Problem

- Business essentially sound
- Will recover when conditions improve
- Need short term access to additional cash to tide the business over
- High level of confidence in paying off this short-term debt when conditions improve

Long Term Cashflow Problem

- Cash always tight
- Business profitability below average
 - Farm Output – below optimum
 - Farm Expenses – above optimum
- Scale – farm business income not enough to cover farm family living expenses and bank payments

Cash Flow Management

- Involves management of DEFICITS and SURPLUSES
- Cashflow needs to be assessed over the entire year as well as month by month
- Put a system in place to monitor cash flow
 - Record it to UNDERSTAND it
 - Budget it to CONTROL it

Recording and Budgeting Steps

Step 1: Complete the “5 Minute Cash Flow” worksheet to identify changes in your cash flow from last year to this year

Step 2: Complete the Cash Flow Projection to look at the current year cash in and out until the end of the year

The 5 Minute Cash Flow

Name:

Date:

| | | This Year | | Last Year |
|---|----------------------|--|----------|--|
| Cow Numbers (number) | | <input type="text"/> | | <input type="text"/> |
| Other Stock (number) | | <input type="text"/> | | <input type="text"/> |
| Bank Balance Today | | € <input type="text"/> | A | € <input type="text"/> |
| Milk Sales to year end litres | Litres | <input style="text-align: right; font-size: small;" type="text"/> litres | | <input style="text-align: right; font-size: small;" type="text"/> litres |
| Milk Price to year end (your estimate) | Cent | <input style="text-align: right; font-size: small;" type="text"/> cent | | <input style="text-align: right; font-size: small;" type="text"/> cent |
| Milk Output to year end (total €) | B | € <input type="text"/> | | € <input type="text"/> |
| Animal Sales to year end | C | € <input type="text"/> | | € <input type="text"/> |
| Direct Payments to year end | D | € <input type="text"/> | | € <input type="text"/> |
| Total Cash Inflow | B+C+D | € <input type="text"/> | X | € <input type="text"/> |
| Once Off Investments to year end | E | € <input type="text"/> | | € <input type="text"/> |
| Tax Bill to be paid | F | € <input type="text"/> | | € <input type="text"/> |
| Contractor | G | € <input type="text"/> | | € <input type="text"/> |
| Feed Costs to year end | H | € <input type="text"/> | | € <input type="text"/> |
| Vet & Other costs to year end | I | € <input type="text"/> | | € <input type="text"/> |
| Loan Repayments to year end | J | € <input type="text"/> | | € <input type="text"/> |
| Family living costs to year end | K | € <input type="text"/> | | € <input type="text"/> |
| Total Cash Outflows | E+F+G+H+I+J+K | € <input type="text"/> | Y | € <input type="text"/> |
| NET CASH FLOW | X - Y | € <input type="text"/> | Z | € <input type="text"/> |
| Predicted Bank Balance on 31 Dec | A + Z | € <input type="text"/> | | € <input type="text"/> |

(Accuracy of this years estimate can be gauged by comparing with last years bank balance on the 31st December)

Sensitivity Analysis

If your milk price estimate is off target by 1 cent per litre it will adjust your income by €100 per 10,000 litres.

Based on the your milk volume completed above what is your figure?

€

Cash Flow Projection

| Cash Out (to 31 st December 20____) | Current Outstanding | From today to 31 st December 20____ | Total |
|---|---------------------|--|----------|
| Total Repayments from above | € | € | € |
| Feed & Fertiliser | | € | € |
| Contractor | € | € | € |
| Vet | € | € | € |
| Other Operating Expenses | € | € | € |
| Health Ins/Policies (Pension etc.) | € | € | € |
| Tax | € | € | € |
| Living Expenses | € | € | € |
| Total Payments | | A | € |
| | | | |
| Cash In (to 31 st December 20____) | To Date | Due from today to 31 st December 20____ | |
| Farm Sales <i>(milk + other sales less exp. not included above)</i> | | € | € |
| Direct Payments (SFP, AEOS, SWCS) | | € | € |
| Off Farm Income (Net) | | € | € |
| Child Benefit, Pension, Farm Assist | | € | € |
| Total Net Cash Available | | B | € |
| Balance Surplus/Deficit <i>(Deficit should not exceed available merchant credit and OD limit)</i> | | B - A | € |

Do you know your debt position?

You need to get a clear picture of...

- Who you owe (The Lender)
- How much you owe (The Balance)
- What it is costing you (The Interest Rate)
- How long have you left to pay (The Years Left)

Put together a list of all your debts

List of all current debt as of today __/__/20__

| | Loan Name/ Debtor | Current Amount Outstanding | Remaining Loan Term (years) | Current Interest Rate | Total Repayment per year | Payments due before 1 st Dec 20__ |
|---|----------------------|----------------------------------|-----------------------------------|-----------------------------|--------------------------------|---|
| Term Loans <i>(incl. house mortgage)</i> | | € | | % | € | € |
| | | € | | % | € | € |
| | | € | | % | € | € |
| | | € | | % | € | € |
| Overdraft & Stocking Loans | | € | | % | € | € |
| | | € | | % | € | € |
| | | € | | % | € | € |
| Merchant Co-Op Debt <i>(+outstanding farm-to-farm debt)</i> | | € | | % | | € |
| | | € | | % | | € |
| | | € | | % | | € |
| | | € | | % | | € |
| | | € | | % | | € |
| Hire Purchase/ Finance | | € | | % | € | € |
| | | € | | % | € | € |
| Total Payments | | | | | | € |

Cash Flow Fixes

- Match timing of cash outflows to periods of cash surplus
- Make sensible use of available short term credit options (overdrafts, merchant credit, working capital facilities) to bridge cash shortage gaps
- Bring forward sales
- Defer purchases / spending
- Examine loan repayments – are they happening at the right time to match cash inflows

If repaying debt is a problem...

- Recognise the problem early
- Contact your lender as soon as you see a problem developing
- Develop **YOUR** plan as to how you will make repayments
- Meet your lender **fully prepared** and put your proposal to them

Examine Personal Spending

- **Living Expense** figure is often the single biggest cash outflow for farm households
- Check direct debits for life assurance/savings policies – do you really need them ?
- Monthly payments into pension (s)
– can these be reduced to a minimum ?
- Provide for end of October tax bill
- set up a monthly direct debit into savings a/c

Farm Spend V House Spend

- A separate farm and household account is essential for good cash management
 - Set up a standing order from the farm account to non-farm account to cover household bills
- If off-farm income is coming in is it lodged in the farm or non-farm account?
 - Lodge into the non-farm account
 - can transfer to farm account if needed

In summary...

- **Act early**, even the best dairy farm plans and schedules are in need of adjustments. Delays will cause the situation to deteriorate and cause extra stress.
- **Be realistic** and up front in developing your Cash Flow plan using the worksheets provided.
- **Consult** and draw up a plan with your Teagasc Advisor, Agricultural Consultant or accountant. They have the expertise and experience to help you develop a Cash Flow plan for your business.
- **Decide** on a course of action using your Cash Flow plan to form the basis of negotiations with your suppliers and banks. Creditors will respond best to realistic budgets and up-to-date cash flow projections, supported by the farmers own records and accounts.