Building a Cash Flow Activity

Now that Joe and Jean Farmer have evaluated their Balance Sheet and Income Statement for the 2017 production year, they would like to project a Cash Flow for 2018. This will help as they work with their lender to know how much operating loan funds they may need. Jean’s off farm job and family living expenses will be included as the lender will consider these items.

Here is the information they have:

A typical sales plan for the cowherd is:

* Sell around 160 calves at weaning in October, which typically weigh an average of 550 pounds (use 150/cwt for a sales price)
* 60 heifer calves are kept as replacements, with some entering the cowherd and some being sold as bred heifers
  + Bred heifers currently on hand (35) plan to be sold in January for $1100 each
* Cull cows are sold in November, usually around 25 head weighing 1200 pounds (use $60/cwt for a sales price)

Crops production and sales are planned as:

* 200 acres of wheat will be harvested and sold in July. Crop insurance APH is 45 bushels. (use $4.00 per bushel)
* Corn inventory on hand (10,000 bushels) will be sold in January. (use $3.15 for sales price)
* 360 acres of corn will be planted in 2018, with an APH of 132 bushels (use $3.15 per bushel), half will be sold in October and half will be sold in January of 2019
  + 200 acres will be on owned or cash rented ground
  + 160 acres will be on a 1/3, 2/3 share rent agreement
* 320 acres of grain sorghum will be planted in 2018, with an APH of 93 bushels (use $2.90 per bushel), all will be sold in October
  + 180 will be owned or cash rented ground
  + 140 will be on a 1/3, 2/3 share rent agreement
* 566 acres of soybeans will be planted in 2018, with an APH of 48 bushels (use $9.70 per bushel). Half will be sold in Oct. and December
  + 300 acres will be on owned or cash rented ground
  + 266 acres will be on a 1/3, 2/3 share rent agreement
* All hay will be used for the cowherd this year

Last year Ag. Program Payments of $46,336 were received in October. The lender is hesitant to use this number but for lack of a better estimate, this will be included on the 2018 cash flow.

Coop dividends of $3,300 were received in December last year, of which $990 was cash. A similar amount will hopefully be received in 2018 at the same time.

The Farmer’s plan to trade in a piece of equipment at the end of the year. They hope to get $5,500 for it with the replacement costing around $12,500.

Jean’s off-farm job brings in $2340.75 a month, after taxes and other deductions.

Expenses are a bit more difficult to estimate, but based on Jean’s QuickBooks reports of the past 3 years, here are some guidelines:

* Purchased feed expenses are around $22,200 for the year. When cattle are out on pasture from May-October, mineral costs $500 per month. When the cattle are in the drylot during Nov.-April, purchased feed is around $3,200 per month.
* One hired man is paid $42,000 a year, spread equally over 12 months.
* Repairs are difficult to plan for. In the past 3 years they averaged about $58,000. Jean’s QuickBooks summaries show most of this occurs in January, March, and Oct/Nov. Figure 20% of the total in each of these months, and then $1,450 for the other 8 months.
* A large amount of seed is purchased in December, typically around $40,000. Based on the crop acres for 2018, seed expense is expected to total $68,000. Of the remaining $28,000, $15,000 will be purchased in March and $13,000 is September.
* Fertilizer costs are as follows:
  + $6,000 to top dress wheat in February
  + $40,000 in April and $15,000 in June for spring crops
  + $10,000 in September for wheat
  + $20,000 prepaid in December for spring crops
* Chemicals are as follows:
  + $2,000 to top dress wheat in February
  + $15,000 in March and $25,000 in April for spring crops
  + $20,000 in June for burndown
  + $8,000 prepaid in December for spring crops
* Most Veterinarian expenses occur when cattle are worked in October, usually $3,200 in that month. April is also a big month, typically around $2,500. The remaining months are on an as-needed basis, but the Farmer’s use $100 a month to plan.
* For Storage & Marketing, plan $300 in January, $400 in July, $350 in October, and $700 each in November and December.
* Machinery Hire and Lease is anticipated at $2,000 in February, $3,000 in March, $4,000 in April, $3,000 in June, and $2,500 in September.
* Utilities are projected at $300 a month.
* Their local supplier lets them price fuel and arrange for payment. They have arranged $12,000 for both March and September.
* Property Tax on titled vehicles occurs in October and will be around $1,420.
* Real Estate Tax totaled $4,840 last year, but plan on $5,000 this year with ½ due in May and December.
* Farm Insurance is $5,500, due in July
* Crop Insurance Premiums: Wheat acres in June $1,400, Spring Crops in September $12,784
* Cash Rent totals $46,240 with ½ due in March and ½ in December.
* Miscellaneous expenses are figured at $950 per month for the entire year.
* Interest is $1,200 for the air seeder and $3,000 for the tractor in March, bred heifer loan $1,800 in November, $29,500 in December for both land notes, and operating interest of $9,000 divided between April and December.
* A new bull is planned to be purchased in March costing around $5,000.
* Family living expenses will try to be held to $5,000 a month, or $60,000 a year.
* Income taxes may be around $12,900 and will be paid in February.

Remember from the balance sheet that the operating loan has a $150,000 current balance.