

Cash Flow Statement



Financial statements are essential tools for managing farm businesses. Often, an accountant or bookkeeper will produce statements from the financial records of the business. Although the manager or owner may not be the person who develops the statements, they should understand the information that the statements provide about the financial condition of the business and be familiar with actions they can take to improve poor financial performance.

To ensure that you get a full picture of the farm's financial situation, use this publication in combination with the other financial analysis tools found in the Farm Financial Analysis Series. This series includes [P3709 *Managing Farm Finances in Turbulent Times*](#), [P3713 *Balance Sheet*](#), [P3707 *Income Statement*](#), and [P3712 *Ratios to Measure Farm Financial Health*](#).

A cash flow statement is a record of all the cash inflows and outflows that occur throughout the accounting period. This allows you to see how your available cash varies across the year. This is important for understanding when financial obligations are due throughout the year, and how to properly prepare for these periods going forward.

Creating a Cash Flow Statement

The cash flow statement can be used to record monthly cash flows (see Figure 1), or it can be done bi-monthly, quarterly, or semiannually. However, the more detailed the cash flow statement is, the easier it is to understand when cash is going in and out of the business. The following items outline what items to include in a comprehensive cash flow statement.

Cash from Operating Activities

The cash from operating activities section includes the receipts from any sales of crops or market livestock. Other operating income would include amounts from ag program payments like the Agricultural Risk Coverage (ARC) or Price Loss Coverage (PLC) programs. This could also be payment for any custom work that you did.

Also include all expenses for operating activities—any money spent on feed or any items that are intended to be resold, such as feeder livestock. This section also

includes the operating expenses, which are expenses that are used to help the farm run. Operating expenses include money spent on labor, chemicals, fertilizers, fuel, seed, or marketing expenses. Interest expense is also included and is the interest paid on any loans. Lastly, any income taxes paid should be recorded here.

The *net cash income from operating activities* is all the incoming cash from sales or other operating income minus all the costs that it takes to run the farm. The cash flow shows the parts of the year incoming cash is going to be higher than expenses, and the parts of the year where the incoming cash may be lower.

Cash from Investing Activities

This section is about cash earned or spent on investment items. Any item that is typically used for longer than 1 year is considered an investment item, including any sales or purchases of breeding livestock. Any purchases or sales of any equipment or real estate are also included. The net cash from investing activities is the cash earned from investment items minus the cash spent on investment items.

Cash from Financing Activities

The cash provided by financing activities comes from any cash received from operating loans or term debt financing. Any nonfarm income that is used to pay for farm expenses is also included. Lastly, any gifts or inheritance is included, along with any investment income, sales of personal assets, and retirement account withdrawals.

Record the cash used to pay for any financing debt in this section. This is any payment on the principal of term debt, finance leases, and operating and CCC loans. Record any owner withdrawals for unpaid management and labor, as well.

Cash Flow Summary

The *cash flow summary* shows all the cash received from operating, investing, and financing minus all the cash expenses for each month. The beginning cash balance is the amount of cash available at the beginning of each month. The ending cash balance takes the beginning cash

Figure 1. Cash Flow Statement Example.

	Total	January	February	March	April	May	June	July
Cash from Operating Activities								
Cash Provided by:								
Crop Sales	509,518				67,936	101,904	203,807	
Market Livestock Sales	118,128			118,128				
Other Operating Income	49,636							
Other Miscellaneous Income	5,000			5,000				
Cash Used for:								
Feed purchases, Feeder livestock purchases, and other items for resale	(31,583)	(7,896)	(7,896)	(3,948)				
Operating expenses	(466,329)	(10,329)	(25,333)	(76,000)	(50,666)	(30,808)	(34,807)	(20,267)
Interest expense	(40,784)				(26,594)	(2,088)	(10,118)	
Income taxes	(14,769)			(14,769)				
Net Cash Income from Operating Activities	128,817	(18,225)	(33,229)	28,411	(9,324)	84,616	178,490	(20,267)
Cash from Investing Activities								
Cash Provided by Sale of:								
Breeding livestock	28,915			28,915				
Machinery & equipment	0							
Real estate & buildings	0							
All other investments	0							
Cash Used for Purchase of:								
Breeding livestock	(5,000)							
Machinery & equipment	0							
Real estate & buildings	(35,000)							
All other investments	0							
Net Cash from Investing Activities	(11,085)	0	0	28,915	0	0	0	0
Cash from Financing Activities								
Cash Provided by:								
Operating loans	95,570		63,076					
Term debt financing	0							
Nonfarm income contributed to the farm business	28,089	2,340	2,340	2,340	2,340	2,340	2,340	2,340
Capital contributions, gifts, inheritances	0							
Cash Used for:								
Principal on term debt	(100,926)				(70,926)	(4,049)	(18,500)	
Principal on finance leases	(13,506)					(9,008)	(4,498)	
Repayment of operating and CCC loans	(74,750)							
Owner withdrawals for unpaid management and labor	(55,740)		(18,952)					(36,788)
Owner withdrawals - other	(12,680)							
Dividends and capital distributions	0							
Net Cash from Financing Activities	(133,943)	2,340	46,464	2,340	(68,586)	(10,717)	(20,658)	(34,448)
Net Change in Cash	(16,212)	(15,885)	13,235	59,666	(77,910)	73,899	157,832	(54,715)
Beginning Cash Balance	68,419	68,419	52,534	65,769	125,435	47,525	105,816	244,040
Ending Cash Balance	52,207	52,534	65,769	125,435	47,525	105,816	244,040	189,325

	August	September	October	November	December
Cash from Operating Activities					
Cash Provided by:					
Crop Sales		135,871			
Market Livestock Sales					
Other Operating Income		16,545	33,091		
Other Miscellaneous Income					
Cash Used for:					
Feed purchases, Feeder livestock purchases, and other items for resale				(3,948)	(7,896)
Operating expenses	(39,520)	(83,600)	(64,600)	(15,200)	(15,199)
Interest expense		(1,984)			
Income taxes					
Net Cash Income from Operating Activities	(39,520)	66,832	(31,509)	(19,148)	(23,095)
Cash from Investing Activities					
Cash Provided by Sale of:					
Breeding livestock					
Machinery & equipment					
Real estate & buildings					
All other investments					
Cash Used for Purchase of:					
Breeding livestock				(5,000)	
Machinery & equipment					
Real estate & buildings			(35,000)		
All other investments					
Net Cash from Investing Activities	0	0	(35,000)	(5,000)	0
Cash from Financing Activities					
Cash Provided by:					
Operating loans		32,494			
Term debt financing					
Nonfarm income contributed to the farm business	2,340	2,340	2,340	2,340	2,349
Capital contributions, gifts, inheritances					
Cash Used for:					
Principal on term debt		(7,451)			
Principal on finance leases					
Repayment of operating & CCC loans		(60,124)	(14,626)		
Owner withdrawals for unpaid management and labor					
Owner withdrawals - other					(12,680)
Dividends and capital distributions					
Net Cash from Financing Activities	2,340	(32,741)	(12,286)	2,340	(10,331)
Net Change in Cash	(37,180)	34,091	(78,795)	(21,808)	(33,426)
Beginning Cash Balance	189,325	152,145	186,236	107,441	85,633
Ending Cash Balance	152,145	186,236	107,441	85,633	52,207

balance and adds the given month's net cash income from operating activities, net cash from investing activities, and net cash from financing activities. The net change in cash shows which months have the most cash going in or out of the farm business.

How Can a Cash Flow Statement Help You?

A cash flow statement is a valuable tool for understanding when loan payments need to be made and when additional borrowing will be necessary throughout the year. The cash flow can be used to establish a loan repayment schedule that will coincide with when revenue is coming into the farm business. This is important for the

farmer as well as the lender. This financial tool also helps you understand when and if an investment can be made during the year.

You can use information from the cash flow statement to determine liquidity problems. If the cash inflows are not enough to cover the business expenses and the operating loan is higher at the end of the time period than it was at the beginning, there is a liquidity problem. You can use the cash flow statement to determine which expenses can be adjusted to reduce this liquidity issue. Used in combination with the balance sheet and income statement, the cash flow statement can be a useful way of determining a farm's financial situation.

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