

# Cashflow budgeting

How to develop and  
manage a cashflow  
budget



# Why do a cashflow?



# Why do a cashflow?

- Prediction of monthly income and expenses
  - Road map
- Know where you are financially
  - Check map
- Predict maximum overdraft
- A tool to control your business
- To assist with decision making
- Link between the physical and financial
- Often part of loan agreement with bank



Planes are off course 99% of the time but usually get there!

*“Is the fact that we cant perfectly predict the future an excuse for not doing a cashflow?”*

*“What if the pilots said that?”*

# “Route recalculation”



# What are we measuring?

- Financial performance
  - Includes tax implications
- Economic performance
  - True business performance
- Cash performance
  - Actual income and expenditure

# Where do you start? And Finish!

1. Profit and loss
2. Capital budget or profit budget
3. Cashflow
4. Management program
5. Monitor and manage

# 1. Profit and loss

- Historical proof
  - Includes breakdowns, blow-ups, cock-ups, stuff-ups, seasonal challenges etc
  - Good reasons for variations
    - Increased income decrease costs
- Needs some standardising
  - Accounting to management
  - Capital versus operational
  - Variable vs overhead costs

## 2. Capital budget

- Linked to physical
- Shows profit
  - Should I do it
  - Cashflow will tell you if you can do it
- Not purely cash
  - Idea of what should be left in cashflow
- More easily manipulated than a cashflow
  - Existing position
  - Capital implications
  - Physical reality
- Quickly converted to monthly cashflow
  - Similar income and costs

## 2. Capital budget-Physical

- Physical needs to be realistic
  - Often more recognisable as reality check
- On-farm changes link to budget
- Rapid assessment of changes

## 2. Capital budget-Capital

- What's tied up
- In evaluating options there may be capital implications to consider

## 2. Capital budget-Profit

- Communication
  - Common language and meaning
- For benchmarking
  - What can we change?
  - What are others doing?
  - What's best practice
- Per cow/ha
  - Whichever makes sense

# Spreadsheets

- Incredibly powerful tool
- Like having many calculators working at once
- One thing you should learn to use

# Lets have a look at a capital budget

Example of Capital budget



# From capital to cash

- Capital/Profit budget aims to standardise
  - For comparison
    - Imputed labour
    - Depreciation based on asset life
    - Changes in farm balance sheet
      - Livestock inventory
      - Fodder on hand
  - More accurate reflection of profit

# Cashflow

- Most important aspect is reflecting flow of funds
  - “Do” versus “pay”

# Income

- Milk income
  - Complex
  - Farm specific
  - Often significantly different to average price or closing price
- Made a lot easier by getting a factory income estimation
  - Cows in milk, production/cow important
    - Early on specifically (average numbers)
- Other income
  - Directly from capital budget

# Costs

- Generally directly from
  - Capital budget
  - Profit and loss
  - Accounting program

# Lets have a look at a cashflow

Example of Cashflow  
budget



# Manipulating cashflow

- Trim (Done in capital budget?)
- Delay expenditure (Good strategy)
- Bring forward income (Good strategy)
- Cut out (May have been done)
- Start again

# The concept of budget to actual

- A road map is useless in the glove box
  - Blowups and breakdowns
  - Seasonal conditions (last spring)

“When you think it cant get any worse you're probably wrong and when you think it cant get any better your probably right”

# Reacting to the cashflow

- Something didn't go according to plan
  - That means potential adversity but also opportunity
- Step one is therefore always
  - Is there an opportunity to reduce costs or increase income as a result of whatever compromised the cashflow

# Example: 20 cows die at calving

- Production down
- Costs down
  - Every cow based cost
    - AI
    - Herd recording
  - Every production based cost
    - Fertiliser
    - Grain
    - Repairs and maintenance

# Lets do that in the capital budget

- 20 cows at 350MS x \$4.22 = -\$29,540

# Outcome

- The idea is to minimise impact
  - Can't always get back to positive outcome
  - Minimising impact requires management and discipline

# Summary

1. P and L provides historical evidence
2. Capital budget
  - Links physical and financial
  - Easily manipulated
  - Can cope with capital implications
3. Cashflow
  - Accurate reflection of intent
  - Actively managed

# Practice makes perfect



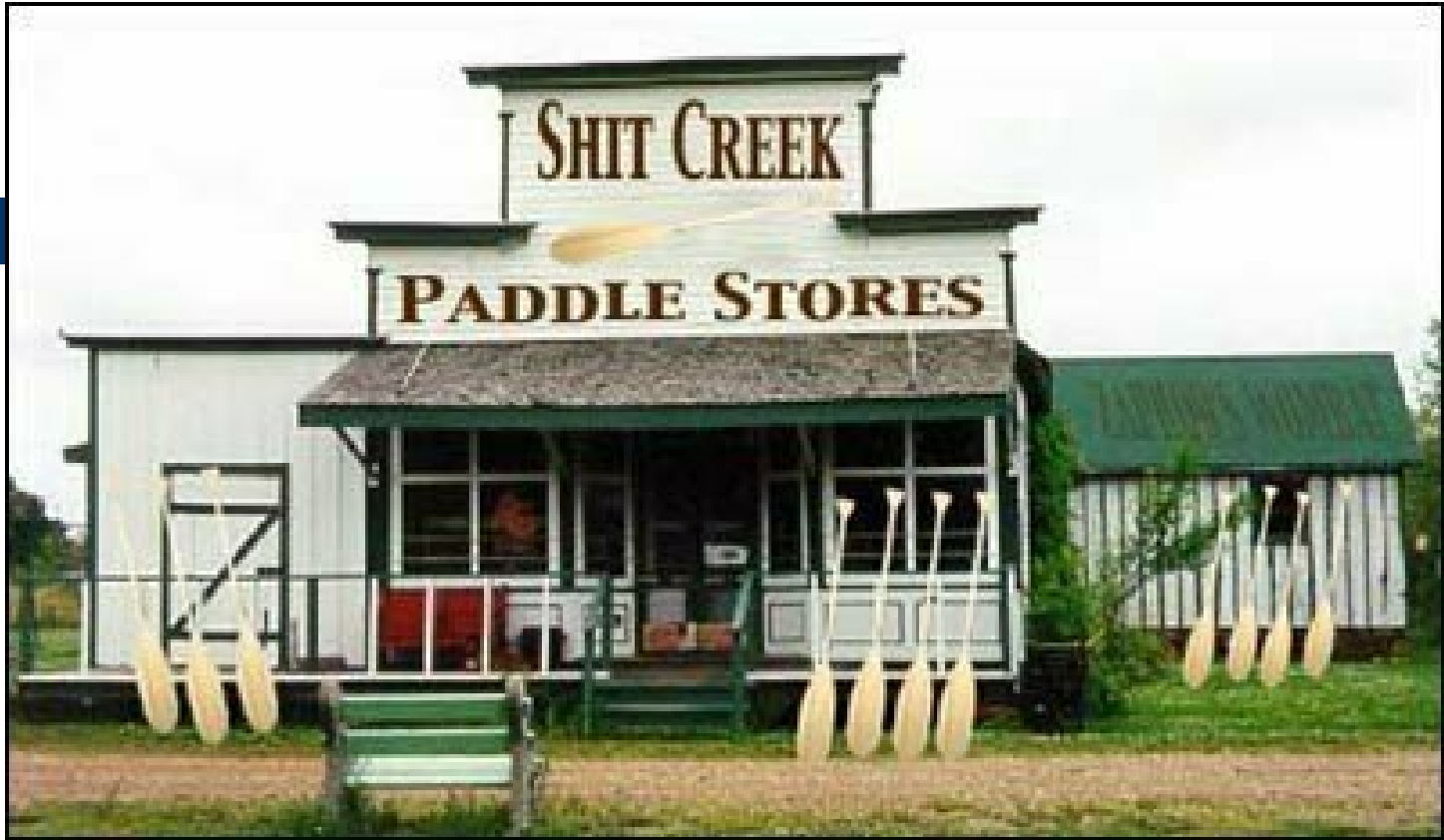
# Help preparing a cashflow

- Template on memory stick
- Consultants/Farm advisors
- Rural Financial Counsellors
- Field Officers
- Accountants
- Book keepers
- Bank Manager
- Dairy Farming friends

# Help managing the cashflow

- The real issue
  - Ultimately you
  - Consultants/Farm advisors
  - Rural Financial Counsellors
  - Field Officers
  - Accountants
  - Book keepers
  - Bank Manager
  - Dairy Farming friends
- In different areas and to different extents

# Summary



- A cashflow is a tool just like a paddle