

Training Manual: The Basics of Financing Agriculture

Module 2.3 | Basics of the Cash Flow Statement

Acknowledgement

The Agriculture Finance Training Manual is part of AgriFin's Agriculture Finance Training Tools. The Manual was developed by [IPC](#) - Internationale Projekt Consult GmbH as part of AgriFin's technical advisory project for Cameroon Cooperative Credit Union League ([CamCCUL](#)).

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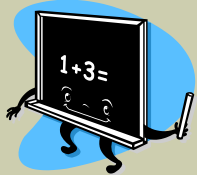
Session Overview

LEARNING OBJECTIVE	A cash flow statement tracks the cash inflows and outflows of a client's business. Agriculture Loan Officers (ALOs) can use a record of the cash flow to evaluate the state and performance of a business or project. Thus a fundamental understanding of cash flow items and the statements maintained by businesses is essential for effective portfolio management.
SCOPE	<p>By the end of this session, the trainee will be conversant on the following principles:</p> <ul style="list-style-type: none">• A basic understanding of the key items tracked in cash flow statements• A knowledge of the functions, usage, and scope of cash flow statements• An understanding of the usage of cash flow statements along with other financial statements• An understanding of the profitability of a client's economic activities• Case studies and solutions to practice analyzing cash flow statements
TARGET	Agriculture loan officers, trainers, agriculture experts with limited financial analysis training, and other professionals interested in agriculture financing
DURATION	1 hour

Content

1. The Cash Flow Statement
2. Structure of a Cash Flow Statement
3. Case Study: Curtain shop – May
4. Differences: P&L vs. Cash Flow Statements
5. Using a Cash Flow Statement
6. Cash Flow as a cross-checking tool: Example

1. The Cash Flow Statement



What is the cash flow statement and what is it used for?

- Record of the cash inflow and outflow of an enterprise during a certain period
- Performance evaluation of a business or project
- Cash liquidity of an enterprise at a certain time. Being profitable does not necessarily mean being liquid.
- Dynamic development of business activity, investment activity, and financing activity

1a. The Cash Flow Statement - Comprehensive

A cash flow statement includes cash inflows and outflows from three different activities: **operating**, **investment**, and **financing activities**. In addition to these three business-related parts, there is a personal cash flow statement (family expenses, income of other family members).

1. Cash flow from operating activities:

- Cash received or spent as a result of the company's operating activities

2. Cash flow from investment activities:

- Cash received or spent through capital expenditure, investments or acquisitions

3. Cash flow from financing activities:

- Cash received or spent as a result of financing activities (both debt and equity financing) such as borrowing and repayment.

1b. The Cash Flow Statement - Example

Poultry Farmer:

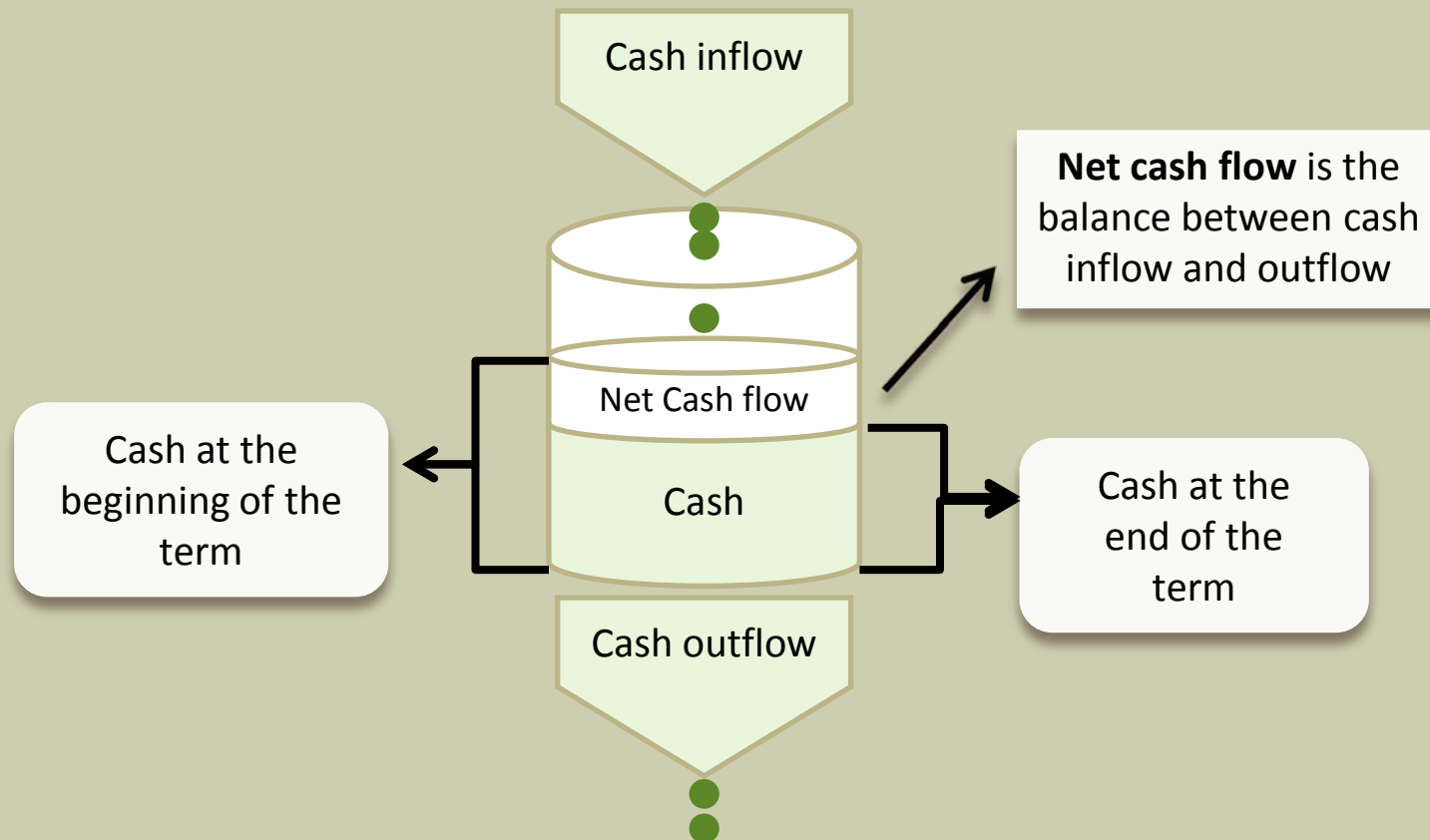
<i>Item/month</i>	July	AUG
<i>Cash at the beginning</i>	50.000	215.000
allowance from church	15.000	15.000
Manure	5.000	5.000
sales three weeks Chicks		1.845.000
Sales mature chicks		
<u>Njangi</u>		0
<u>buyam sellam</u> fowls	0	40.000
<u>Njangi</u> to benefit	0	0
Coffee	0	0
Debts to be collected		
LOAN	580.000	
Total inflow	650.000	2.120.000
Day old <u>ckhicks</u>	300.000	
<u>Vacines</u>	9.000	
Drugs	5.000	
Car <u>mentainance+fuel</u>		30.000
Salaries	20.000	20.000
Tithes	10.000	10.000
Feeding	40.000	40.000
Electricity	3.500	3.500
Village contribution	2.500	2.500
<u>Njangi</u> contribution	30.000	30.000
Total outflow	420.000	136.000
Loan fees	15.000	
Loan repayment		201.118
Net cash flow	215.000	1.782.882

What kind of business income and expenses will the farmer incur in these two months?

What expenses might the farmer have other than his business?

Understands the problems of liquidity and why CF statements help with repayment plans

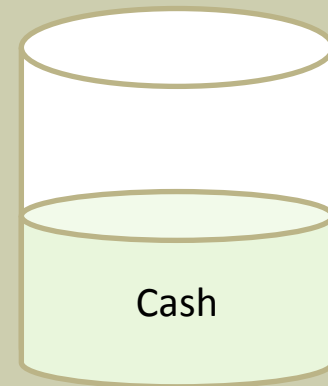
2. Structure of a Cash Flow Statement



2a. Structure of a Cash Flow Statement - Cash

Refers to cash that the client has at the beginning of the term, including:

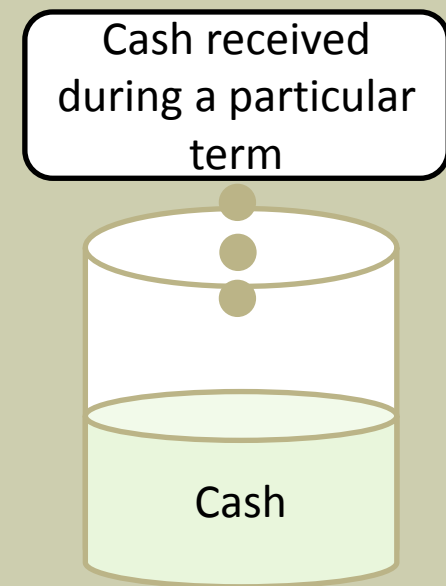
- Cash
- Bank deposits



2b. Structure of a Cash Flow Statement - Inflow

Cash sources include:

- Sales in cash (cash may not be received at the time sales takes place)
- Account receivables that are collected
- Repayments of money lent out
- Acquisition of loans
- Injection of new capital (new partner joins in)

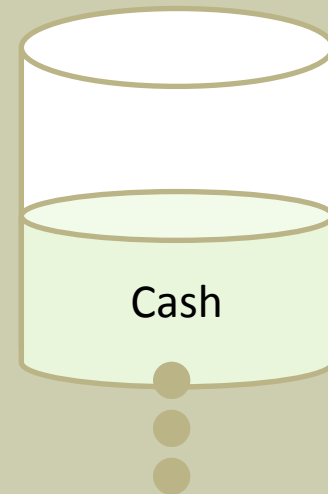


2c. Structure of a Cash Flow Statement - Outflow

Possible directions of outflow:

- Purchasing of material/equipment in cash (purchases may not be conducted in cash; accounts payable)
- Making a payment on an accounts payable
- Making a prepayment, down payment (order goods/purchase equipment)
- Lending money out
- Repayment of loans (private/bank)
- Operating expenses (utilities, salary, tax, etc.)
- Other expenses (family expenses, personal emergency expenses, etc.)

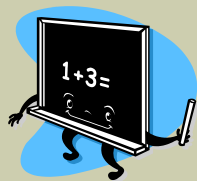
Any cash the enterprise paid out during the term



3. Case Study: Curtain shop – May

Mrs. Samasa has been operating a shop producing curtains for many years. She lives with her husband who was laid off in April and does not have an income. Together, they spend about 1,300 per month on daily expenses. In April, Mrs. Samasa gave her son 80,000 towards purchasing his new house. Therefore, at the beginning of May, she has only 1,600 in cash and a deposit of 5,000 in her bank account.

In May, the business of the curtain shop was average, with a turnover of 10,000. Mrs. Samasa received all her money in cash. She roughly calculated that the gross margin of her shop was around 50%. In order to restock her inventory, she made purchases amounting to 5,000. Total fixed expenses of the curtain shop are 2,300 per month. At the end of May, Mrs. Samasa attended her nephew's wedding and gave him 400 as a wedding gift.



Please prepare the cash flow and P&L statements for Mrs. Samasa for the month of May

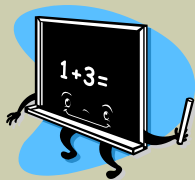
3. Case Study: Curtain shop – May – Answers

Cash flow statement	May	P&L statement	May
Cash at the beginning of the term	6,600		0
Cash inflow during the term	+10,000	Sales	+10,000
Sales in cash	10,000	Sales in cash	10,000
Cash outflow during the term	-7,300	Variable costs	-5,000
Purchasing of raw materials in cash	5,000	-Cost(50%)	5,000
Fixed expenses	2,300	-Fixed expenses	2,300
Cash flow from operating activities	2,700	Operating profit	2,700
Family and other expenses	1,300	-Family expenses	1,300
Other expenses	400	-Other expenses	400
= Cash at the end of the term	7,600	Other revenues	0
Net cash flow	+1,000		+1,000

3a. Case Study: Curtain shop – June

In June, the business of the curtain shop was very bad. At the beginning of the month, another curtain shop was opened nearby, which attracted clients with cheap opening deals. The turnover of Mrs. Samasa was merely 3,000 which she received in cash. There was no change in the private expenses and in the fixed expenses and the gross margin was still 50%.

At the end of the month, Mrs. Samasa started to worry about the future of her business, but just at that time she got an order from the local Arts College (100 sets of curtains, XFA 100/set, with delivery before the end of the next month). The college made a down payment of 45% when the contract was signed, another 50% was to be paid upon delivery of the curtains and the remaining 5% after the installation of the curtains. Mrs. Samasa planned to start work on this order at the beginning of the next month. In addition, Mrs. Samasa's brother returned 10,000 she lent him one year ago to buy an apartment.



Prepare the cash flow and P&L statements for June.

3a. Case Study: Curtain shop – June – Answers

Cash flow statement	June	P&L statement	June
Cash at the beginning of the term	7,600		0
Cash inflow during the term	+17,500	Sales	+ 3,000
Sales in cash	3,000	Sales in cash	3,000
Payment in advance (Art College)	4,500		
Cash outflow during the term	-3,600	Variable costs	-1,500
Purchasing of raw materials in cash	0	-Cost(50%)	1,500
Fixed expenses	2,300	-Fixed expenses	2,300
Cash flow from operating activities	5,200	Operating profit	-800
Collection of lending	10,000		
Cash flow from financing activities	10,000		
Family and other expenses	1,300		
Other expenses	0		
= Cash at the end of the term	21,500		

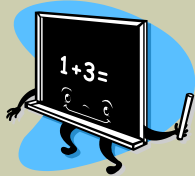


3b. Case Study: Curtain shop – July

Because the curtain material that the Art College ordered was very special, Mrs. Samasa had to purchase entirely new raw material. At the wholesale market she purchased three rolls of this special cotton for 2,000 each. She had a long relationship to the shop owner who offered Mrs. Samasa a special price if she would buy additional five rolls of standard cotton – for 1,000 each. The standard cotton would be delivered next month, but Mrs. Samasa had to pay in advance. Mrs. Samasa calculated that she would be able to reduce her production costs significantly in the future and accepted the deal.

On the 25th of this month, Mrs. Samasa finished the 100 curtains and delivered them to the Art College. Mrs. Samasa received 5,000 and would collect the remaining 5% after installation the next month. After rough calculation, Mrs. Samasa thought her gross margin this time was higher than usual (about 55%). In addition, she sold 5,000 in her curtain shop with her ordinary profit margin of 50%. During the month Mrs. Samasa's husband got paid 600 for helping his friend in a car maintenance workshop.

3b. Case Study: Curtain shop – July (contd.)



Please prepare the cash flow and P&L statements for July.

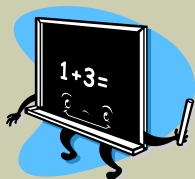
3b. Case Study: Curtain shop – July – Answers

Cash flow statement	July	P&L statement	July
Cash at the beginning of the term	21,500		0
Cash inflow during the term	+10,600	Sales	+ 15,000
Sales in cash	5,000	Sales in her shop	5,000
Payment (Art College)	5,000	Order Art College	10,000
Cash outflow during the term	-14,600		
Purchasing of raw materials in cash	6,000	Variable costs	-7,000
Payment in advance	5,000	-Shop(50%)	2,500
Fixed expenses	2,300	Art college (45%)	4500
Cash flow from operating activities	-3,300	-Fixed expenses	2,300
Mr Samasa’s income	+600	Business profit	5,700
Family and other expenses	1,300	-Family expenses	1,300
Other expenses	0	-Other expenses	0
= Cash at the end of the term	17,500	Other revenues	600
Net cash flow	-4,000		5,000

4. Differences: P&L vs. Cash Flow Statements

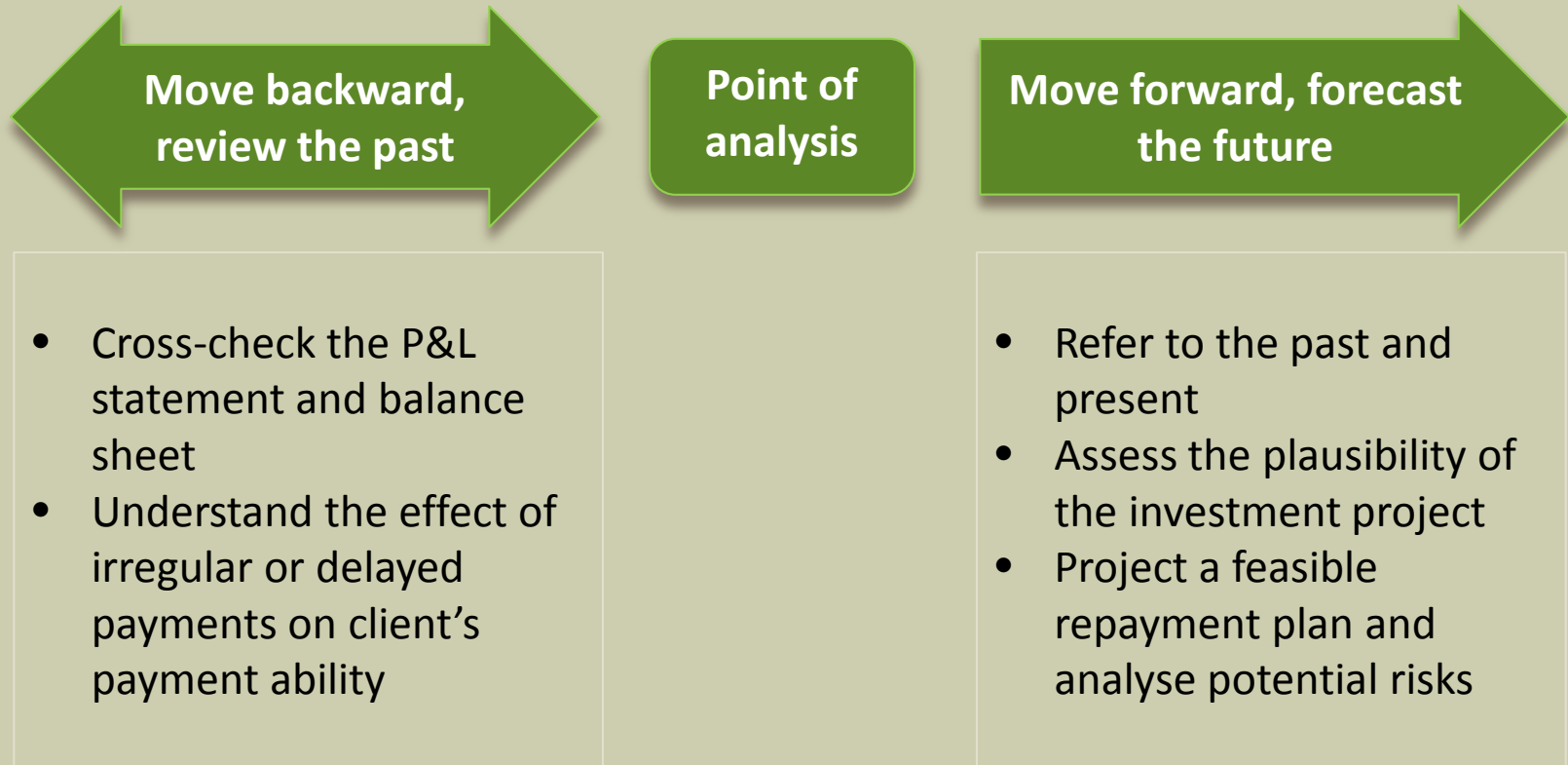
Not all transactions are real-time deals in cash:

- Sales (payments received in advance/accounts receivable)
- Purchase (advance payments/accounts payable)
- Fixed expenses (advance payments/accounts payable, e.g. rent, salary etc.)
- Family expenses (with few non-cash deals, so for convenience, all are treated as cash deals)



What examples can you give for differences between P&L and CF statements?

5. Using a Cash Flow Statement

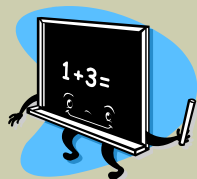


6. Cash Flow as a cross-checking tool: Example

During the analysis of a new client you receive the following information:

The client has a small boutique, selling jeans. He applied for a loan of 30,000 to renovate his shop. From the analysis (31.12.2008) you learned that the client's monthly sales are quite stable, fluctuating from 30,000 to 35,000; average sales are 32,000 per month. He receives all payments in cash. The client usually makes purchases twice a month and each time spends 10,000, which roughly matches his variable costs. In the first 3 months of operations, to fill up on stock, he made 3 purchases per month for 8,000 each.

The monthly rent for the shop is 4,000 which he has to pay annually. Two days ago he paid the rent for the next year. He has 1 employee (monthly salary 1,000), other operational expenses are 1,400, which are payable on the last day of each month. The family expenses are 1,500.



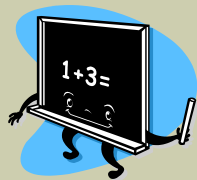
Do these figures match? Prepare three types of financial statements for this example.

6. Cash Flow as a cross-checking tool: Example (contd.)

He started the business one year ago and invested the whole earnings of this year in his business except a birthday present for his wife for the amount of 600 (two months ago). During the analysis, you count the inventory which has a purchase price of 30,000, no receivables, no fixed assets, no other assets except the deposit for the shop (4,000).

He has no money in his bank account, but 1,000 in cash.

The client told you that he started the business on the 01.01.2008 with 70,000, of which 35,000 he borrowed from his sister. With this money he paid the rent, the deposit and the rest was for the purchases. According to the client he repaid the borrowed money to his sister 3 months after he started the business and has currently no other liabilities.



Do these figures match? Prepare three types of financial statements for this example.

6a. Balance Sheet

Balance Sheet		Date: 31.12.2008 Time: 10:00 AM	
Cash	1,000	Payment received in advance	0
Inventory	30,000	Other liabilities	0
Prepaid rent and deposit	52,000	Equity	83,000
Total assets	83,000	Liabilities & equity	83,000

Balance Sheet		Date: 01.01.2008 Time: 10:00 AM	
Cash	0	Payment received in advance	0
Inventories	18,000	Other liabilities	35,000
Prepaid rent and deposit	52,000	Equity	35,000
Total assets	70,000	Liabilities & equity	70,000

6b. P&L Statement 01/2008 – 12/2008

P&L Statement	Jan	Feb	Mar	Apr	May	Jun
Sales	+ 30,000	+ 31,000	+ 32,000	+ 32,000	+ 32,000	+ 32,000
Variable costs	- 18,750	- 19,375	- 20,000	- 20,000	- 20,000	- 20,000
-Fixed expenses	6,400	6,400	6,400	6,400	6,400	6,400
-Family expenses	1,500	1,500	1,500	1,500	1,500	1,500
	3,350	3,725	4,100	4,100	4,100	4,100

P&L Statement	Jul	Aug	Sep	Oct	Nov	Dec
Sales	+ 32,000	+ 32,000	+ 35,000	+ 32,000	+ 32,000	+ 32,000
Variable costs	- 20,000	- 20,000	- 21,875	- 20,000	- 20,000	- 20,000
-Fixed expenses	6,400	6,400	6,400	6,400	6,400	6,400
-Family expenses	1,500	1,500	1,500	2,100	1,500	1,500
	4,100	4,100	5,225	3,500	4,100	4,100

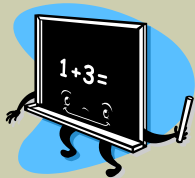
6c. Cash Flow 31.12.2008 – 01.01.2008

Cash Flow	31.12.	Dec	Nov	Oct	Sep	Aug	Jul
Cash (start)	1,000	40,900	32,800	25,300	14,200	6,100	-2,000
Cash inflow		32,000	32,000	32,000	35,000	32,000	32,000
Cash outflow		71,900	23,900	24,500	23,900	23,900	23,900
Cash (at the end)		1,000	40,900	32,800	25,300	14,200	6,100
Net cash flow		-39,900	+8,100	+7500	+11,100	+8,100	+8,100

Cash Flow	Jun
Cash (start)	- 10,100
Cash inflow	32,000
Cash outflow	23,900
Cash (end)	-2,000
Net cash flow	+ 8,100

6d. Cash Flow 01.01.2008 – 31.12.2008

Cash Flow	01.08	Jan	Feb	Mar	Apr	Mai	Jun
Cash (start)	0	0	2,100	5,200	9,300		
Cash inflow		30,000	31,000	32,000	32,000		
Cash outflow		27,900	27,900	27,900	58,900		
Cash (end)		+2,100	+5,200	9,300	-17,600		
Net cash flow		+2,100	+3,100	+4,100	-26,900		



Is it possible to have a negative Cash Flow?
NO!

For more resources please visit AgriFin's website

www.AgriFin.org

We welcome your feedback to help us further refine these training materials. Please contact us at agrifin@worldbank.org.