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# Cash - Where it Comes from, Where it Goes

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# Cornhusker Economics

Cooperative Extension

Institute of Agriculture & Natural Resources  
Department of Agricultural Economics  
University of Nebraska – Lincoln

## Cash - Where it Comes from, Where it Goes

Market Report	Yr Ago	4 Wks Ago	9/28/01
<b><u>Livestock and Products,</u></b>			
<b><u>Average Prices for Week Ending</u></b>			
Slaughter Steers, Ch. 204, 1100-1300 lb Omaha, cwt .....	\$65.92	\$69.98	\$66.47
Feeder Steers, Med. Frame, 600-650 lb Dodge City, KS, cwt .....	85.72	96.75	*
Feeder Steers, Med. Frame 600-650 lb, Nebraska Auction Wght. Avg .....	97.67	104.21	97.68
Carcass Price, Ch. 1-3, 550-700 lb Cent. US, Equiv. Index Value, cwt .....	102.16	107.75	106.67
Hogs, US 1-2, 220-230 lb Sioux Falls, SD, cwt .....	45.25	44.00	43.63
Feeder Pigs, US 1-2, 40-45 lb Sioux Falls, SD, hd .....	*	*	43.50
Vacuum Packed Pork Loins, Wholesale, 13-19 lb, 1/4" Trim, Cent. US, cwt .....	118.55	115.70	114.90
Slaughter Lambs, Ch. & Pr., 115-125 lb Sioux Falls, SD, cwt .....	68.80	*	46.42
Carcass Lambs, Ch. & Pr., 1-4, 55-65 lb FOB Midwest, cwt .....	158.00	*	123.22
<b><u>Crops,</u></b>			
<b><u>Cash Truck Prices for Date Shown</u></b>			
Wheat, No. 1, H.W. Omaha, bu .....	3.13	2.99	2.88
Corn, No. 2, Yellow Omaha, bu .....	1.63	1.92	1.83
Soybeans, No. 1, Yellow Omaha, bu .....	4.57	4.63	4.20
Grain Sorghum, No. 2, Yellow Kansas City, cwt .....	2.93	3.68	3.47
Oats, No. 2, Heavy Minneapolis, MN, bu .....	1.15	1.43	1.88
<b><u>Hay,</u></b>			
<b><u>First Day of Week Pile Prices</u></b>			
Alfalfa, Sm. Square, RFV 150 or better Platte Valley, ton .....	120.00	102.50	110.00
Alfalfa, Lg. Round, Good Northeast Nebraska, ton .....	75.00	67.50	75.00
Prairie, Sm. Square, Good Northeast Nebraska, ton .....	82.50	105.00	105.00
* No market.			

The *Statement of Cash Flows* is an important financial statement for the farm or ranch business manager. While an accrual income statement explains the difference in net worth from one balance sheet to the next, the statement of cash flows explains the difference in cash and cash equivalents from one balance sheet to the next.

Generally Accepted Accounting Principles (GAAP) began to require a statement of cash flows, in addition to the balance sheet and income statement in 1988. It replaced the statement of changes in financial position, often referred to as the source and use of funds, or funds flow statement. The statement of cash flows focuses on three basic activities of a business; **Operating, Investing** and **Financing**. It provides insights into such questions as:

- M What did the manager do with cash obtained from financing or from the sale of investments?
- M Where did the cash for new investments originate **S** from operations, debt financing or the sale of investments?
- M Where did the cash for repaying debt originate **S** from operations, sale of investments, refinancing or other debt financing?

The statement of cash flows is one of the four financial statements recognized as the minimum set of financial statements by the Farm Financial Standards Council (FFSC). Two of the four statements, the Balance Sheet and Income Statement are commonly used by producers and lenders. The remaining two statements are the Statement of Cash Flows and the Statement of Owner Equity. The statement of cash



flows, which is completed after the end of a year's business, should not be confused with the cash flow plan, or budget, which most producers prepare at the beginning of each operating year.

The statement of cash flows shown below is the average of 156 Nebraska farms for the year 2000. These farms were in the Nebraska Farm Business Association (NFBA) and the Nebraskaland Farm & Ranch Management Educational Program. They use the FINPACK financial analysis software (University of Minnesota Center for Farm Financial Management) for year-end farm analysis. The statement of cash flows is a part of each producer's business analysis. While the statement of cash flows is most valuable to the manager of the business, the group average is presented here to show an example statement. The "Investing Activities" section was condensed to conserve space in this article. The statement that a producer receives shows detailed purchases and sales of farm assets in five categories.

The top section of the statement shows the net cash provided by operations, after deductions for family living and income and social security tax. The middle section deals with investing activities, and shows the sales and purchases of capital items. The net cash provided by investing activities is calculated. The bottom section shows loans received and loan principal payments. The net cash provided by financing activities is calculated.

Business owners should plot the key figures from their statement of cash flows on a trend sheet, to provide a benchmark for analyzing the latest year's statement. For the year 2000, the net cash from investing activities was a negative \$50,138 for this group of 156 farms. To meet this deficit, \$41,460 was generated from operations, and \$8,880 came from financing (the cash balance increased by \$202). The percent of the deficit that came from financing was 18%. This was the lowest percentage from financing in the six-year history of using the FINPACK analysis (1995-2000). The highest percentage required from financing was 52% in 1996. The average for the six years is 37%. The average debt to asset ratio for these farms for the same six years is about 38%. As you would expect, when the investing activities were funded by financing at a level higher than the debt to asset ratio, this ratio tended to increase. The low percentage of investing activities in the year 2000 that required financing will lower the debt to asset ratio. Thus, 2000 was an above average year for this group of producers, on average, based on

the statement of cash flows.

<b>Statement of Cash Flows</b>	
<b>Average of 156 Nebraska Farms, 2000</b>	
Beginning Cash Balance	\$26,617
<b>Cash from Operating Activities</b>	
Gross cash farm income	(+)\$343,779
Net non-farm income	(+)\$16,833
Total cash farm expense	(-)\$270,222
Apparent family living expense	(-)\$38,630
Income & social security tax	(-)\$10,300
Net Cash from Operating Activities	(=)\$41,460
<b>Cash from Investing Activities</b>	
Sale of farm assets	(+)\$7,020
Sale of non-farm assets	(+)\$6,203
Purchase of farm assets	(-)\$50,745
Purchase of non-farm assets	(-)\$12,616
Net Cash from Investing Activities	(=)(\$50,138)
<b>Cash from Financing Activities</b>	
Money borrowed	(+)\$261,011
Cash gifts & inheritances	(+)\$4,575
Principal payments	(-)\$256,415
Dividends paid	(-)\$21
Gifts given	(-)\$270
Net Cash from Financing Activities	(=)\$8,880
Net Change in Cash Balance	\$202
Ending Cash Balance	\$26,819

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