Agricultural Economics Curriculum

A Project Funded by USDA BFRDP Grant #10506276

Development Partners Include:

Lesson 2. Activity 3 – Case Study: Part 2

Introduction

Now back to Megan's cattle project that we developed an enterprise budget for in part one. In this activity, you will crunch some numbers to create a cash flow budget. Megan will need a loan and you now know how to estimate interest expenses.

Take a look at this phase of Megan's planning…

Materials

Students will need to have the following materials to complete this exercise:

- Pencil
- Computer with access to Excel® or other spreadsheet program - or -
- Calculator

Student Instructions

Megan will borrow $250 on a youth loan to purchase a bred cow. She will repay this note over three years at a 5% interest rate. Principal payments will be $79 in the first year. Interest in the first year will be $12.50. Megan will also take out an operating note at 5% to pay for feed and veterinary expenses during the year. The operating note is to be repaid after the calf is sold in December. To estimate interest on the operating note, use the formula you have learned in previous activities.

There is an additional source of cash in Megan's example. She will allocate $500 of her savings (beginning cash balance) to purchase the bred cow. Utilizing this information and the information provided in *Lesson 1. Activity 4 Case Study: Part 1* exercise, complete the cash flow budget in Table 1.

Table 1 – Cash Flow Budget	
Sources of cash	
Beginning cash balance	
Crop sales	
Livestock sales	
Custom work	
Sale of depreciable assets	
Sale of land	
Proceeds from planned borrowing—cow note	
Proceeds from planned borrowing—operating note	
Other sources of cash	
Total sources of cash	(A)
Uses of cash	
Cash expenses (excluding interest paid)	
Breeding stock purchases	
Purchase of other depreciable assets	
Purchases of land	
Principal payments	
Interest payments on long-term debt	
Operating note repayment	
Interest on operating note	
Other uses of cash	
Total uses of cash	(B)
Net cash surplus of deficit	(A-B)

If Megan's project were to have a negative projected cash flow, suggest ways to improve her cash flow.

Student Reflection

1. How do enterprise budgets and cash flow budgets differ?

2. What options should Megan investigate regarding her interest payments?

3. If Megan has plenty of cash flow throughout her project, what should she consider changing about her plan before a taking out a loan?