CASH FLOW DOES NOT INDICATE PROFITABILITY

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A Cash Flow DOES NOT

In Any Way

Indicate PROFITABILITY!

Cash Flow Is Not An Indication Of Profitability

CASE 1

CASH ANALYSIS

CASH INFLOW	
Operating Receipts	$140,000
Capital Receipts	15,000
Non-Farm Income	0
TOTAL CASH AVAILABLE	155,000
CASH OUTFLOWS	
Operating Expenses	95,000
Capital Expenditures	0
Income and S.S. Taxes	5,000
TOTAL CASH REQUIRED	100,000
NET CASH DIFFERENCE	+55,000
Loan Payments:	
Interest	-15,000
Principal	-10,000
NET CASH DIFFERENCE (available for family living)	+30,000

PROFITABILITY ANALYSIS

REVENUE	
Operating Sales	$140,000
Change in Inventory	(-25,000)
VALUE FARM PRODUCTION	115,000
EXPENSES	
Operating Expenses	95,000
Interest	15,000
Depreciation	10,000
TOTAL EXPENSES	120,000
NET FARM INCOME	-5,000
Capital Gain (Loss)	+3,000
Non-Farm Income	0
NET INCOME	-2,000
Income & S.S. Taxes	-5,000
NET INCOME AFTER TAXES (available for living, principal payments, and new investments)	-7,000

Cash Flow Is Not An Indication Of Profitability

CASE 2

CASH ANALYSIS

CASH INFLOW	
Operating Receipts	$120,000
Capital Receipts	0
Non-Farm Income	0
TOTAL CASH AVAILABLE	120,000
CASH OUTFLOWS	
Operating Expenses	95,000
Capital Expenditures	20,000
Income and S.S. Taxes	5,000
TOTAL CASH REQUIRED	120,000
NET CASH DIFFERENCE	0
Loan Payments:	
Interest	-15,000
Principal	-10,000
NET CASH DIFFERENCE (available for family living)	-25,000

PROFITABILITY ANALYSIS

REVENUE	
Operating Sales	$120,000
Change in Inventory	(+25,000)
VALUE FARM PRODUCTION	145,000
EXPENSES	
Operating Expenses	95,000
Interest	15,000
Depreciation	10,000
TOTAL EXPENSES	120,000
NET FARM INCOME	+25,000
Capital Gain (Loss)	0
Non-Farm Income	0
NET INCOME	+25,000
Income & S.S. Taxes	-5,000
NET INCOME AFTER TAXES (available for family living, principal payments, and new investments)	+20,000

Reasons Why Cash Flow Does Not Indicate Profitability

Cash Flow does not include some items needed for profitability analysis:

- Inventory Changes
- Depreciation
- Accrued Items

Cash Flow does include items which are not income or expenses:

- Capital Sales and Purchases
- Principal Payments
- Family Living Expenses