

Tutorial 04

Cash Flow Management

Exercise 1

Ferme Oumari is a 60-hectare mixed farm (cereals + dairy cattle) in Tiaret. Below is a simplified extract from the farm's balance sheet at the end of Year N:

ASSETS	LIABILITIES
Agricultural land + buildings: 9,100,000 DA	Owner's equity: 7,200,000 DA
Farm machinery (net book value): 2,800,000 DA	Long-term bank loan: 4,500,000 DA
Stock of inputs (seeds, feed, fertiliser): 950,000 DA	Supplier debts (inputs): 720,000 DA
Customer receivables (milk cooperative): 480,000 DA	Tax and social debts: 180,000 DA
Cash available: 70,000 DA	
TOTAL ASSETS: 13,400,000 DA	TOTAL LIABILITIES: 12,600,000 DA

Formulas to use:

- $NWC = \text{Stable Resources} - \text{Fixed Assets}$ (Stable Resources = Owner's Equity + Long-Term Loans)
- $WCN = (\text{Stock} + \text{Customer Receivables}) - (\text{Supplier Debts} + \text{Tax/Social Debts})$
- $\text{Net Cash (NC)} = NWC - WCN$

1. Calculate the Net Working Capital (NWC). Comment on the result.
2. Calculate the Working Capital Need (WCN). Comment on the result.
3. Calculate the Net Cash (NC). What is the overall financial situation of Ferme Oumari?

Exercise 2

Mr. Bouzidi manages an 80-hectare durum wheat farm. He gives you the following data to build his cash flow budget for January to June of Year N. The opening cash balance on January 1st is 320,000 DA.

Expected inflows (money actually received):

Cash inflow	Amount & Month
Sale of stored wheat (previous harvest)	780,000 DA in January
VAT refund from tax authority	210,000 DA in February
Government cereal subsidy	390,000 DA in March
Sale of livestock (2 bulls)	260,000 DA in April
Miscellaneous small sales	60,000 DA every month (Jan to Jun)

Expected outflows (money actually paid):

Cash outflow	Amount & Month
Salaries + social charges	145,000 DA every month (Jan to Jun)
Seeds purchase	230,000 DA in February
Fertilisers and pesticides	310,000 DA in February, 180,000 DA in March
Fuel and machinery maintenance	55,000 DA in January, 70,000 DA in March, 45,000 DA/month Apr to Jun
Loan repayment (bank)	95,000 DA every month (Jan to Jun)
Miscellaneous expenses	30,000 DA every month (Jan to Jun)

1. Complete the cash flow budget table below for January to June. Show all your figures.

ITEMS (DA)	Jan.	Feb.	Mar.	Apr.	May	Jun.
INFLOWS						
Wheat sales						
VAT refund						
Government subsidy						
Livestock sales						
Misc. small sales						
TOTAL INFLOWS						
OUTFLOWS						
Salaries + charges						
Seeds						
Fertilisers & pesticides						
Fuel & machinery						
Loan repayment						
Misc. expenses						
TOTAL OUTFLOWS						
MONTHLY BALANCE						
Opening balance	320,000					
CUMULATIVE BALANCE						

- Identify the months with a negative cumulative balance. What is the maximum cash deficit and in which month does it occur?
- Explain in your own words why the cash deficit occurs. Link your answer to at least two specific items from the budget.