Cash needs

It is generally easier to first estimate what profit needs to cover before looking at the tax accounts. The (cash) needs of the business cover;

* **Personal spending** – monthly drawings to cover food, leisure, private share of heat, light, car, etc, leisure plus taxes. Your accounts will show drawings for the last couple of years, but also remember to take off-farm income into account.

If farmed as a company, the cost of your labour may already be shown in the trading account so be careful not to double count.

* **Machinery (re)investment** – best to view spending on the purchase of machinery over 3-5 years to get an accurate average. The machinery depreciation total shown in your accounts is a useful starting point as this will broadly indicate how much your machinery is wearing out by.
* **Property (re) investment** – covers capital spending on sheds, stores, parlours, silage pits, slurry towers, yards, roads, field drains, fences, handling yards, etc plus the purchase of land.
* **Other investments** – capital spending on, for instance, storage at the local grain co-op is covered here.

Once established, the key question is whether “profit before depreciation” has covered cash needs in recent years.

Watch!! – As capital spending often involves big sums years apart, estimating cash needs is something of an art requiring some judgement. Looking back and averaging over recent years is a good starting point. However, if you are looking at big changes to the business that involves a step change in the size, investment in machinery, buildings and infrastructure may be much higher in the coming five years.

The type of farm plus number of partners in the business will also result in big differences. So a large, intensive dairy farm supporting three families may have cash needs 4-5 times bigger than an extensive hill farm run by a husband and wife team.