

# Fly-by-night international group essay sample

[Finance](#)



After reviewing Fly-By-Night International Group's financial statements there was a lot of evidence that signaled the cash flow problems experienced in mid-year 14.

The first problem I encountered was the company's accounts receivable had steadily increased, rising faster than sales from year nine through year 14.

The inventories also increased during the same time period. When accounts receivable is rising faster than sales it indicates that Fly-By-Night was not aggressively collecting cash from its customers thus possibly indicating loose credit terms for customers. Also inventories were rising faster than sales.

This indicated that the company was producing more products than were in demand. In both of these scenarios the cash is tied up where it cannot generate a return for the company.

Secondly, the company's debt had steadily increased indicating that the company was taking on more debt than it could handle. This along with lower sales indicates the possibility of a cash flow problem. The company could have possibly managed this debt better by effectively managing its inventory not to produce more than was needed and also tightening the credit terms for customer so more cash could be generated within the company.

Another cause for concern is the company, while showing a positive net income for the three years prior to year 14, the cash that the company had on the balance sheet was much lower than the net income. In year 14 the company showed cash on the balance sheet of \$159, 000 but net income was negative \$3. 83 million. Companies have a way of manipulating net income but it is much harder to manipulate cash on the balance sheet.

<https://assignbuster.com/fly-by-night-international-group-essay-sample/>

Looking at a company's cash on a balance sheet is a greater indicator of financial health over net income.

The company, in order to avoid bankruptcy, will have to change the design by strengthening credit terms in order to get more cash into the company faster, looking at turning its inventory into cash more quickly and look to see where they can trim down on unnecessary expenses. While the company appears to be in a devastating position, their sales were the highest they had ever been in year 14 which shows that there is still a demand for their product.