

The financial status of the firm

Business



**ASSIGN
BUSTER**

The Financial Status Of The Firm

In the business world, the most important asset that can make or break a company is the cash. Cash is the most liquid asset and it needed in order to maintain a business operation open. I'm evaluating the financial status of the firm called Company A. The balance sheet of the company shows a good picture including a healthy debt to equity ratio, but the cash reserves of the company are too low based the amount of business activity the firm is generating. The purpose of this paper is to analyze the cash flow problems at Company A and offer recommendations to resolve the company's cash flow dilemma.

As an outside consultant, I would gather information about the company operation. I need access to the minimum the last three years of annual reports, social responsibility reports, and financial statement. If the financial staff of the firm has ratio analysis, variance analysis, strategic plans, assurance reports, and any other information I would need access to the information as soon as possible. Three alternative solutions the company could implement to improve its cash position are liquidation of inventory, selling corporate paper known as bonds, and acquiring bank credit line or credit card. A fourth alternative that the company can utilize is factoring its account receivables.

Factoring is the sales of the account receivables of a company to a third party (Beasley & Brigham, 2000). This technique can be implemented and it affects positively the cash position of the company and has no impact the sales strategy of the firm. If a company enters in a factoring of receivables it must realize that the discount given to the buyer at the time of the sales constitutes the cost or interest rate being charged on the sale of the account

<https://assignbuster.com/the-financial-status-of-the-firm/>

receivables. If the customer defaults on the payment of the account receivable the company that loses are the buyer in the factoring agreement. There is a correlation between sales, cash, and account receivables. All sales end up being either cash or credit sales. A credit sale creates an account receivable for the company. The industry standard is that account receivables should convert to cash within 30 days. If it takes longer to collect the account receivable the cash flow of the company position of the company could be affected. Company A has to revise its credit sales policy. Delinquency in collecting account receivables could be one of the reasons the company is facing cash flow problems. The firm should either discontinue credit sales or change the credit policy to 15 days credit. The management team of the firm does not want to incur more debt. This eliminates the solution of issuing bonds which constitutes a long-term debt. I highly recommend the company apply for a credit line. A credit line does not constitute any debt if it is not used. This solution would provide the company with instant purchasing power in case the company reaches the zero cash point. It is important to remember that zero cash means that the company becomes insolvent and would have to shut down its operations. To summarize the facts of the cash Company should either utilizing factoring to convert its account receivables into cash or apply for a bank credit line.

References

Besley, S., Brigham, E. (2000). *Essentials of Managerial Finance* (12th ed.). Fort Worth: The Dryden Press.