Prepare for cyrus brown manufacturing

The company will need outside financing so as to finance its monthly cash needs partly. As can be seen form the monthly cash budget above, the company in question, CBM has severe shortage of funds from April to September.

It has only be able to cross its minimum cash balance requirement in November which is to collection of September sales. Also, in the month on June, one can see a severe shortage of money in the company. This is due to the plant investment that the firm has done. This will need to be financed through short term borrowing.

Other than this, the firm’s sales have gone down in the last two months; this may indicate that the firm will not be able to finance its cash requirements on its own and thus, will need to borrow. c. What is the minimum line of credit that CBM will need? The minimum financing needed by CBM will be $214, 000. This amount is needed in the month of June when CBM will make a plant investment. This has been selected as the minimum requirement for borrowing because this is the maximum cash needed by the firm.

In all the other months, its financing needs remain less than $214, 000. This will help the firm ensuring that it can make the requirement investment in plant and assets and run its daily operations smoothly without cash shortages. Financing Needed in June: Cash Position at the end of May = -164, 000Minimum Cash Balance = 50, 000Financing Needed = $ 214, 000d. What do you think of CBM’s cash position during the budget period? Do you see any concerns for the company in this regard? The cash position seems weak during the period of the budget. The cash balance at the end of all but one month remains negative. This shows the dire need for outside financing for the company because otherwise it will not be able to reach its minimum cash balance requirements.

The company needs to be concerned about the following in particular: Declining sales levels in the last two months of the budget period. This can be dangerous for the future of the company because it will not be able to finance its cash requirements which will remain constant or might even rise. Rising labor and material costs which might cause the firm to run into losses if its not be able to finance its needs through short term financing which is available at the lowest interest rate. e. If you were a bank manager would you want CBM as your client? Why or why not? I might not offer credit to CBM because of the fact that their business has started shrinking in October and November. Their labor and material costs as well as sales have gone down from their previous levels.

This shows that the firm is either closing down units or laying off people to avoid running into losses. The firm needs to be able to justify these changes to its creditors. Also, it needs to show how it will be able to pay interest on the debt that it will take because if it fails to do so, its creditors might take over and cause the firm to stop operations.