Fly-by-night case

Literature, Books

Part A There were many signals shown in the financial statements and other exhibits in the case that represented poor cash flow through Year 14. The most obvious of them all is that the collectability of the accounts receivables was problematic. It seemed as if Fly-by-Night had a good system of collecting their sales on account from year 9 to year 10 as the accounts receivable number decreased during those years. However, the accounts receivable account increased by more than six times through years ten and fourteen.

Because of this poor system of collecting accounts receivable, Fly-by-Night’s cash flow would suffer. The same can be said about the inventory account. Because the amount of inventory increased by almost five times through years twelve and fourteen, the cash would continue to decrease at the same rate. Another area of concern that affected Fly-by-Night’s cash flow negatively was their income from continuing operations. All of the companies’ expenses on its comparative income statement had enormous increases from year 13 to 14.

This was the first year that Fly-by-Night recorded a loss from continuing operations and it was a pretty big loss. This suggests that they paid too much to run their business. Some of the ratios presented in the case also suggests a negative flow of cash for year 14. The long term debt ratio dropped from 88% to 0% in year 14, which means that the company paid all of its long-term debt in year 14 and that would have a huge impact on cash flow.

The quick ratio also had a major drop from year 12 to year 14, which indicated that the amount of cash and accounts receivable to cover its current liabilities was becoming a problem. Part B I do not believe that FBN can avoid bankruptcy by year 15. In the case, it states “ As of April 30, Year 14, the Company is in default of its debt covenants. It is also in default withrespectto covenants underlying its capitalized lease obligations. As a result, lenders have the right to accelerate repayment of their loans. Accordingly, the Company has lassified all of its long-term debt as a current liability. ” The way the company is moving, it does not appear that FBN will have enough cash to cover these now current liabilities. The company has to implement new strategies in order to avoid bankruptcy. First of all, there has to be bettercommunicationbetween the members of the board. It says that Mather received a loan authorized by the board for $1, 000, 000 when later that month the board said it was unaware of this loan and that it never authorized it. Obviously there was fraud occurring when Mather was the CEO.

With better oversight by the board, problems such as this could be averted. Also, FBN needs a better system to collect its accounts receivables. As said in Part A, the accounts receivable amount had increased so much in the past 5 years and that negatively affected cash. It is a misnomer that high revenue is the sign of success when really it should be how much cash the company has. That is why Mather was confused why there was a problem with cash and the reason was that the company did not pay enough attention to the cash flow statement.