

Company analysis: hampton machine tool company

[Business](#), [Company](#)



The questions for the Hampton Machine Tool Company are given below. Please prepare for submission questions 1 and 2 only. That is, please submit your balance sheet for December 31, 1979 and income statement for the four month period, September through December 1979, requested in question 2 below (your income statement should not be monthly; it should cover the entire four months). Please also prepare, but do not submit, the remaining questions.

1. Why can't a profitable company like Hampton repay its loan on time and why does it need more bank financing? What major developments between November 1978 and August 1979 have contributed to this situation?
2. Based on the information in the case, prepare a projected income statement for the four months Sept. 1979 through Dec. 1979 and a pro forma balance sheet as of December 31, 1979. (Your income statement should not be monthly. You should make one covering the entire four months.)
3. Critically evaluate the assumptions on which your forecasts are based. What developments could alter your results? Is Mr. Cowins correct in his belief that Hampton can repay the loan in December?
4. Based on the information in the case, prepare a projected cash budget for the four months, September through December 1979. Do the cash budgets and pro forma financial statements yield the same results? Why, why not? Hint: they should.

Another hint: Do not rely on the statement on page 6, —...our engineering estimates indicate that we expect to earn a profit before taxes and interest

of about 23% on sales on these shipments. Instead using the accounting relation in Q#2 (footnote below) when constructing your income statement. What action should Mr. Eckwood take on Mr. Cowins' loan request? What are the major risks associated with the proposed loan? What other alternatives does Mr. Eckwood have and what are the pros and cons? What would you do?

Why did Hampton repurchase a substantial fraction of its outstanding common stock? What is the impact of this repurchase on Hampton's financial performance? Critically assess Hampton's dividend policy. Do you agree with Mr. Cowins' proposal to pay a substantial dividend in December? With Cartwright, we had a relatively simplistic situation, particularly as it concerns inventory: only one class of inventory was represented, not the typical threesome of raw materials, work in process, and finished goods. (Presumably Cartwright was not adding much value to the raw materials, just selling them through, although—on the contrary—the case seemed to indicate that the company manufactured some door frames, trim, etc.)

For Hampton, you might find helpful a basic accounting relationship: beginning inventory + purchases + other outlays - cost of sales = ending inventory; solving for cost of sales (and recognizing that end - begin inventory is change in inventory), Cost of sales = purchases + other outlays - change in inventory. (Note that there are a couple inventory types to include.). Additional sub-hint: the — other outlays amount to \$400K/mo. There are other expenses that should also be kept in mind when generating the pro-forma income statement.