Case study on financial consultancy decision making two case studies

Business, Company

Introduction: For a company to carry out business profitably, the selling price and the cost price are not the only factors. Taxes, Depreciation, Un-collectibles, Inventory & Supply Chain etc. are just a few parameters which can cause a profitable company to undergo losses and vice-versa. We consider here two cases where companies are helped by financial consultancy

Let us first consider the case of Mr. Paul Raines of Atlas Construction Co

Computation of depreciation

Depreciation by the straight-line method and MACRS are shown below in separate columns.

YEAR

Depreciation by

Depreciation by

Straight line method Accelerated Recovery(MACRS)

The depreciation figures for both the straight-line method and the Accelerated recovery Method, are given above. For the straight-line method, 10% is considered as the depreciation rate for the years 2010 and 2015. It has been assumed that only half of the year has become relevant. We are considering that the income before depreciation is $ 900, 000 and income tax for the firm is deductible at 40%. The net income is computed as follows. The above chart clearly shows that in every year the net cash flow after taxing the total revenue is always more in the accelerated recovery MACRS

method. Therefore, Paul should follow the MACRS method in this particular case as he will then be able to have a higher net revenue, from 2010-2015.

Estimation of uncollectible accounts

As given in the case study, Hugo's figures are as under

Sales increased by 29%, bad debts were 0. 27% of total credit sales and revenue increase was 12%.

We will advise Dolphin to wait for one more year as we suspect that in 2013, sales will rise still more and bad-debts will decrease. The market was destabilized due to the change in Dolphin payment terms and stability is now returning. It appears that Hugo's own marketing people were unsure of what to do in the changed circumstances. In 2013, if bad debt falls below 0. 15%, sales increases to above 35%, then it is an ideal

situation. Other approaches like cash discounts etc. can be thought of then.

Conclusion: We can therefore see that financial consultancy is a part of business today. The financial consultant tells the promoter what their profits can be if they walk along direction a, then direction B. Finance is therefore today the bedrock, on which, the edifice of profitable business stands.

Reference:

Hampton John. J.;(1989); Financial Decision Making: Concepts, Problems and Cases: Prentice-Hall Inc., NJ, USA