

Example of clarkson case study

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



Clarkson Lumber is a young company that needs many sources of finance to keep running its operations. However, recently a bank has denied Clarkson Lumber a financing of \$750, 000. This is a big loss for the company. The company is highly geared with the leverage of \$1 amount of debt for every \$1 of equity invested. The current ratio of the company is also in a bad condition signifying working capital difficulties. For every \$1 in current liability, the company has only \$0. 6 in current assets. This situation is very alarming. In future, if the creditors of the company ask Clarkson Lumber to clear his current obligations, he might not be able to do so because of very less amount of current assets against currently liabilities. This is another reason why North West Bank has refused the loan offer to Clarkson Lumber. The reason why the bank might have refused the loan is because the company is already highly geared. It has to pay a large amount to its creditors already, and the worth of the company is far below the amount it owes in liabilities. The bank might also be worried about Interest coverage ratio. It has gone by 25 pence for every \$1 accrued in interest expense. This is dangerous because it might reduce the money cover or safety cover that the bank has in terms of earning of the company. Hence, the bank is trying to place safe by not lending the funds to Clarkson Lumber. Therefore, Clarkson Lumber should try to improve its balance sheet and income statement condition by reducing its inventory, increasing cash in hand and marketable investment. It will make sure that the funds are not lying idle, nor the company has a shortage of debt to meet its short term obligation. Clarkson Lumber has to play smart and improve its position in order to convince the bank and the creditors to extend funds to the company.

Hence, the bank is worried and is refusing to finance the company further. The major worry for the company is rising days of accounts receivable. This will affect the company's cash conversion cycle, and the company will soon find itself in working capital problems. This is one reason why the company might have been refused the loan by North West Bank. Another area of worry for Clarkson Lumber is its rising cash outflow from operations. In future, the company will experience difficulties. Clarkson Lumber, therefore, should try to correct or balance his problems by making use of effective policies as suggested in the next paragraph.

The company can use other option for financing to keep the company up and stable. Clarkson Lumber can convert the company from a sole proprietorship to a limited company. This will not only solve the company's problem of cash and financing, but it will also make the company a limited liability company. This means that in the future if the company goes bankrupt, Clarkson will not be liable to bear all the company's liabilities. Another way the company can reduce the danger it is in by asking the creditors to pay immediately or reduce the number of days of accounts receivable in order keep its working capital and cash conversion cycle efficient and, that it does not face crisis in the future which looks very imminent now.