Mini case ch

[Business](), [Company]()

What appears to be the problem areas in the Hobby Horse Company? The problem with Hobby Horse Company is that they were having a tough year throughout 2011. The company has $45 million loan that is due at the end of September, however the company does not have the means to cover the cost of the loan. Looking at thefinancial statementthe company has fairly high leverage where their equity is not as strong. In addition, their current assets don't cover current liabilities-? meaning that the company is not as liquid.

For the year 201 1, shareholders would not be better off in terms of investing in his company due to low return on capital for that year. For shareholders to actually benefit from this, earning a higher return would allow them to invest on their own in financial markets. Shareholders want the companies to invest only in projects for which the return on capital is at least as great as the cost Of capital. 2. What questions do the financial ratios Suggest that Ms.

Plant and Mr.. Green need to address during their meeting with H Management. Some questions Ms. Plant and Mr.. Green need to address during their meeting with H management is the asset turnover in order to measure the efficiency of he entire asset base in order to turn them over more quickly. Looking at the operating profit margin would allow the company to measure the proportion of the sales that are in the profits and create plans to increase them each year.

In analyzing the debt ratio, the managers need to take a deeper look into measuring the financial leverage due to their debt situation with the 545 million dollar loan being due at the end of September. This would put the company at risk for future borrowing since debt increases returns to shareholders in good times and reduces them in bad times. When Hobby Horse borrowsmoneyit makes a promise to make a series of interest payments and then to repay the amount that it has borrowed.

If profits rise, the debt holders continue to receive only the fixed interest payments creating a gain for the shareholders. For 2011, since their profits were falling, the shareholders received most of the negative impact. Because they borrowed such a large sum of money, they are unable to pay off their debts for that year creating the dilemma of them finding more financing the next year or for extending their current loan. . Should the bank renew Hobby Horse's Agreement?

If so what conditions should they place on the renewal. Yes, the bank would be wise in renewing the financial agreement with Hobby Horse. Although 201 1 was a troublesome year for the company the past financial records can show the beneficial growth that H has exemplified. Looking at previous years the company still has room for growth and judging at a single year would not be wise for banks to deny renewal.