

# Surecut shears essay



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SureCutShears manufactures a complete line of household scissors and industrial shears. The company has been profitable since 1958 and is considered to be healthy, with ROE at 14%, Gross Profit Margin at 28% and Current Ratio at 10.9% for 1995. David Fischer, Treasurer arranged for a line of credit of \$3.5 million with the Hudson Bank and presented the bank with projected statements. The first assumption made by Mr. Fischer when he prepared the projected financial statements was that sales would continue to increase during the seasonal period, July to December. Instead, sales declined 18% and the company was producing more than it was selling. This resulted in an over projection of \$786k in inventory. The second assumption made by Mr. Fischer is that SureCut would be able to repay the outstanding bank loan of \$1.15 million in March 1996. This was not reasonable as Mr. Fischer did not expect a recession and revenues to fall.

SureCut was unable to repay its bank loan by March 31, 1996 as originally forecasted because Mr. Fischer could not have known there would be a recession. This resulted in a decline in sales of 16.8% by March '96. Actual sales for 7/95 - 3/96 were \$2.8 million below projections and a shortfall in net income of \$1.02 million. Also the actual cash for the same period was \$5.7 million below projections. Another reason why SureCut was unable to repay its bank loan is the company was producing more than it was selling. This resulted in an inventory built up of \$5 million over projections. Mr. Fischer could have scaled back production beginning in October '95 when the recession started and the actual inventory on hand was at \$446k above projections.

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This could have been done through reduced purchases and cut back in labor hours. Another alternative was for the company to have a sale/discount on price in order to reduce inventory. SureCut's financial condition worsened during 1996 but not enough to cause Mr. Stewart any great concern. ROE deteriorated from 14% to 13% and GPM from 28% to 25% for June 1995 and 1996 respectively.