Finance

The paper " Level Production and Working Capital Management of Toy World, Inc." is an excellent example of a case study on finance and accounting. The lives of children can never be happier without toys. With this in mind, toy manufacturers all over the world conceptualized the development of a more sophisticated and diverse assortment of toys. In 1989, the origin of Toy World, Inc. was traced in Miami, Florida as one of the leading wholesalers of toys, party supplies, and household products. (Toy World Incorporated, par. 1) Since toys are mostly purchased only during special occasions; given as gifts during birthdays and on Christmas time, the production was initially perceived as maximized when scheduled seasonally. A shift from seasonal to level production of toys will change the seasonal cycle of Toy Worlds working capital needs and necessitate new bank credit arrangements. (Carl Kester 1) In this regard, this essay is written to analyze Toy World, Inc.'s proposal for level production and working capital management. Further, a determination of what the company is now in terms of the abovementioned financial components would be proffered.

Seasonal Production versus Level Production

Seasonal production utilized man and machinery, as well as other resources of the organization in conjunction with the level of seasonal sales. For toys, the level of production is on its peak period during the Christmas season. For the rest of the year, there is almost no production and machinery and labor standstill. Machinery was usually idle for about seven and a half months during lean periods and would be subjected to heavy use on peak levels. This type of production has the following effects: (1) recruitment difficulties and training during peak levels; (2) overtime work reduces profits; (3) frequent set-up changes in machinery schedule creates confusion and inefficiencies as workers had to relearn operating procedures; and (4) increased susceptibility to encounter problems in the supply for materials to be procured to meet increased production during peak levels.

Level productions would eliminate overtime premiums; would stabilize production runs and schedules; and orderly production would tantamount to labor savings by eliminating inefficiencies and wastage, among others. However, this type of production would increase storage and handling costs.

Working Capital Management

According to Viscione (1977, 6), “ the total of current is often referred to as the working capital of the firm and the difference between current assets and current liabilities is defined as net working capital”. In this regard, working capital management simply oversees the planning, organizing, directing and controlling of working capital.

Using the seasonal production type, Toy World Inc. needs to build up working capital prior to peak production. The firm would have to consider other options for funds to finance inventory build-up (such as bank loans). Further, the level of production highly depends on an accurate sales forecast. Any significant deviation from projected sales would cause an increased level of production which could mean unsold inventories; thereby creating problems in bank repayments (when loans are contracted).

Analysis

The proposed level production would actually increase potentials for profitability. However, there are trade-offs in terms of liquidity and increased risks for unsold inventories if sales forecasts are inaccurate. Level production increases financing requirements and the possibility of unpaid bank loans. In this regard, Toy World, Inc. would be exposed to more risks with level production than with seasonal production.

Conclusion

With the increased risks associated with level production, Toy World, Inc. is in a more precarious situation than utilizing a seasonal production. The reliance on sales forecasts could prove to be disastrous especially in times of drastic changes in the environment. The toy industry poses several threats from smaller and numerous competitors which could immediately copy manufactured toys for relatively smaller cheaper prices. In this regard, it would be a strategical decision for Toy World, Inc. to employ a product type which incorporates both seasonal and level production to minimize the weakness of level production but maximize its benefits. By building a strong image in terms of debt repayments and meeting financial requirements to fund production levels, Toy World, Inc. would eventually achieve a good credit rating.

At present, Toy World, Inc. diversified into other products that are not necessarily seasonal in nature, such as party supplies, ceramics, household items, games, sporting goods, and baby accessories. By producing other products, the assembly line is utilized in a more level of production with sales and profits being generated equally throughout the year.