

Financial management

Business



Will the company need any outside financing? The company has missed out on its target of maintaining \$50, 000 at the end of every month in March, April and June. Although in March, the company has \$15, 000 surplus but due to its policy of minimum cash balance it has to borrow additional funds needed to meet that requirement. (Harrison, 2008) The company needs \$35, 000 in March, \$57, 500 in April and \$121, 500 in June.

What is the minimum line of credit that CBM will need?

A line of credit for CBM would be an arrangement made by a bank to extend a certain amount of unsecured credit to the company for a specified time period. The minimum credit which the company requires is \$35, 000. This is due to the credit extended in the first month of the operations. Moreover, the credit should equal to

This equation is true if the difference between cash receipt and cash payment is less than 50, 000.

What do you think of CBMs cash position during the budget period? Do you see any concerns for the company in this regard?

CBM has performed extremely well during the course of 9-months. Their cash collecting policy has worked well in generating enough cash for the following months. The cash collected has been incremental due to rising revenues. The company has low uncertainty in its revenue stream which locates them in a good position to finance their fixed assets requirement at appropriate time of the year. (Gitman, 2007)

The minimum cash policy at the end of the month has served them well in making payments on time. On average they have surpassed their minimum cash requirement by a substantial margin which is a positive sign for any credit lending firm. The only month which has brought up concerns due to

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operational activities is April where the company had a cash deficit of \$7, 500. (Horngren, 2008) Other than April, the company has been in a cash deficit in June which was primarily because of investment in plant and income tax payment which totaled to \$150, 000. These expenses occur once or twice a year therefore; it is understandable to have a cash deficit for that month. Other than these abnormal payments, the company has fixed payments totaling to \$60, 000 which encompasses salaries, lease and miscellaneous costs (Brigham & Houston, 2009). Over the 9 months, they have been successful in making the fixed payments as well as the variable payments effectively.

If you were a bank manager, would you want CBM as your client? Why or why not?

As a bank manager, I would like CBM to be my client for three reasons.

Firstly, keeping in view their cash budget, the company has been experiencing growth in their revenues during the entire course. This creates positive sentiments about the company and one can project its prospective future. Moreover, growth in revenue could also indicate growing market share and increase in power over price. (Proctor, 2009)

Secondly, their cash collection policy has been stringent. They have collected the cash in adequate time and bad debt losses are minimal which creates certainty about its cash position. As a lender, this is one of the key considerations in lending a manufacturing company. On the basis of cash flow, you can predict whether the company would be in a favorable position to pay your amount back or not.

Lastly, their fixed cost, which includes salaries, lease and miscellaneous cost payments, is hardly 12% of their cash receipts which is a positive sign.

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Lenders seek companies which have low fixed costs and high revenues so that they have enough provision to make debt servicing payments. (Banks, 2010)

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