

Surecut shears inc.

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



Company: Fischer is both treasurer and president

- Stewart did approve the 2, 5mill loan extension
- Household scissors and industrial shears
- Severe competition from foreign companies
- Made profits every year since 1958
- Short term borrowing was normally between July and December, additional capital needed to support sales peak
- Produce at an even rate throughout the year - contributed to the need for seasonal funds

June 1995

- 3. 5 mill loan- anticipated to pay it off in December 95 need for another 1. 2 mill in June 1996 because of a plant modernization program
- The program needs 6mil, half-completed - finished by august 1995
- Expected to save 900 per year in manufacturing costs.

Sept 95

- Need 500K more to cover peak season

January 1996

- Sales came down- retailing downturn-
- Need for more short term borrowing- higher expenditures for the modernization project.
- Funds needed until adjusting to economic conditions
- Estimated it would not occur until April 96

April 1996

- Not able to pay 1. 25mill before a seasonal upturn in June
- Further sales decline, retail recession

Why were Sure

Cut Shears unable to repay its bank loan by December 1995 as originally forecast

Major sources:

- Net income
- Bank loans
- Decrease in inventories
- The decrease in cash Major use
- Increase in account receivables
- Increase in fixed assets

Sources and uses July - December

Sources	Uses
Net income	2221
AR	3, 489
depreciatio n Bank Loans	2, 279

AP	177
Long term debt	299
Dividends	600
Fixed assets	3,321
Inventories	1,604
Tax pre-payable	303
Miscellaneous	1
Decrease in cash	1,480
7887	7887

- Decrease in liquidity due to the increase in AR
- CCC is shortened because of the higher payment period and lower payable period

- The decrease in sales growth, therefore fewer revenues are generated to potentially be converted into cash
- Build up in inventory from august due to increased sales.
- Lower real sales than expected in the forecast

Why SureCut required \$500K more than initially requested?

The payment period increased by 10 days from August to September

- Reduction in payable period= negative cash conversion cycle, SureCut in need of cash
- Continuous expenditure on a modernization project was supposed to be only 2990 in proforma but turned out to be 294k more up to September
- Operating and investing activities are the major USES OF CASH, although the analysis shows that the cumulative cash is in excess of the proforma, it is because of the short term borrowing that has taken place.