

# [Surecut shears](https://assignbuster.com/surecut-shears/)

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The company has seasonality in sales This assumption Is reasonable as the business has been shown to have different rates of sales In different months. Assumptions (Income Statement) 1. Sales for the year will be consistent with the previous year (only a small decrease) This assumption is reasonable since a decline in sales was not predicted until January 1996; only a negligible decline was forecasted.

This assumption is in fact conservative given that the company has been growing consistently throughout the past years. 2.

COGS will be consistent with the previous year Mr.. This assumption is not entirely reasonable since Mr.. Fischer has estimated a reduction in manufacturing costs of $900, 000 however this is not accounted for in the income statement. However this makes the forecast even more conservative.

3. Overheads are constant He assumes the overheads to be 300 throughout the year, which seems to be reasonable as the production Is constant during the year.

Furthermore It Is close to last years average of 296. 4. Selling and administrative expenses will be maintained at previous levels This assumption is reasonable as there are no expected significant changes to this area of the business.

5. Not showing any interest expense He is not accounting for interest expense in his pro-formal statement. Assumptions (Balance Sheet) 6. Accounts Receivable Assumption is okay since there is no reason to expect a change in customer behavior and sales are the same as the previous year 7.

Investments in Plant increase by 3, 000, 000 during the first 2 months of the forecast.

This assumption is reasonable as It Is predicated that the modernization project will be completed In August. No other Investments are expected to be needed. 8. Accounts Payable, he assumes a 30-day payment period for and a consistent rate of $777 per month. The consistent rate is reasonable since production is steady throughout the year. Given the other assumptions the 30-day payment period is also achievable.

9.

Raw Materials/ Wipe/ are assumed to stay stable throughout the year Given that production is constant his assumption is correct to make. Summary Mr.. Fischer made relatively conservative forecasts based on largely reasonable assumptions of seasonality, investment needed for PEP and continuing levels of sales.

Based on the data at Mr.. Fischer had in June 1995 It Is difficult to criticize his projections. Question: Why does he need dilation short term financing to support the additional sales peak?

Sin t he producing throughout the year at a stable rate-I would understand if strong months when the inventory is going down. Why was Curtest Shears unable to repay its bank loan by December 31, 1995 as originally forecasted? Curtest was unable to repay its bank loan for two primary reasons, an overestimating of sales (drop in demand) a build up of capital in inventories (this was in part due to the seasonality of the business). Curtest has the policy of producing at a constant rate this meant that it has little flexibility to reduce inventories.

The downturn caused a reduction in sales therefore Curtest no longer had the revenue from this but still added to pay for in Raw Materials, Accounts payable, and production related costs. Additionally the investment in PEP went over budget by $304, 000 which contributed to the lack of cash. These factors combined led Curtest to taking out more short term financing to cover their immediate cash needs. Inventories increased by 1 MIM as sales go down – capital tied up in the inventory Plant only went up by 100000 Has Surety’s financial condition worsened sufficiently to cause Mr..

Stewart any great concern? The financial condition has been made worse by the downturn, however his can be rectified through adjustments. In addition to this Curtest still maintains a level of current assets ($10, 929, 000) that far exceed current liabilities ($1 , 901 , OHO), a current ratio of 5. 7, indicating that the in the short term the company is still financially healthy. He should be alarmed but not severely concerned. If however the negative sales trend continue in the future problems might appear.

If we take a view where Curtest spending it difficult to sell inventory (a long sustained downturn) test the quick ratio (1. 9) tells us there is sufficient liquid capital for the company to survive; cash & cash equivalents: $3. 555. 000/$1. 901.

000= 1 Additionally the current cash management might case problems, as Curtest is paying its suppliers faster than it gets paid by its clients. This does not put Executes in a preferable situation as there is 15 days difference between payable an receivables. As a result his accounts receivable are very big compared to the monthly sales.

These are various methods Mr..

Fischer can use to improve his companies long term financial situation (given that the downturn is forecasted to be sustained) Reduce the workforce – from the case it can be seen that this has already started occurring A better system for aligning orders and production can be implemented – this will reduce funds caught up in inventories so capital can be more efficiently allocated Increase the days for payable and decrease the days for receivables Even if the downturn in the market is permanent, Curtest can still adapt to the new business environment.