Go with the flow essay

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Go With the Flow, Incorporated (“ Company”) designs, manufactures, and sells a broad range of mobile network products and systems and communication devices, including mobile, cordless and corded telephones. The Company’s primary sources of liquidity are internally generated cash flows, the Company’s debt and revolving credit facilities, and the sale of trade accounts receivables.

The Company’s liquidity and capital requirements are primarily a function of its working capital needs, capital expenditures, and debt service requirements. The Company has the following transactions that need to be analyzed under ASC 230, Statement of Cash Flows (FASB Statement No. 95, Statement of Cash Flows).

1. Insurance Settlement Proceeds The Company reached a settlement with its insurance carrier related to a claim from a tornado that destroyed one of the Company’s manufacturing facilities. During the year, the Company received proceeds of $20 million from its insurance carrier in connection with its claim for reimbursement for the destroyed building. The Company plans to use the insurance proceeds to fund its defined-benefit pension plan, rather than to rebuild the destroyed facility.

2. Sale of Accounts Receivable The Company sells undivided interests in designated pools of qualified accounts receivable to a securitization vehicle. The Company utilizes securitization as a “ financing technique” (e. g., to reduce more expensive bank debt – the interest rates the company obtains on notes issued by the qualifying special purpose entity are lower than the company could get on its own bank debt). The Company services,

administers and collects the receivables on behalf of the purchaser. The agreement includes certain covenants and provides for various events of termination. The agreement also requires that proceeds from securitization be used to pay down Company debt. During the current year, $11 million of receivables generated from sales of the Company's inventory were sold under the agreement, and, therefore, are not reflected in the accounts receivable balance in the Company's balance sheet.

3. Acquisition of Property, Plant, and Equipment on Account In December, the Company incurred $12 million of capital expenditures related to the acquisition of manufacturing equipment and machinery. The terms of the invoice are 2%/15, net 45. The amounts were unpaid as of year-end (i. e., included in the accounts payable balance). The Company intends to pay the invoice in early January, in accordance with the terms of the invoice.