Corporation Finance

Easy Turn Toy Company

Easy-Turn is a company that manufactures and sells a particular type of toy to manufacturers. It has been in business three months and finds itself with more orders taken than it has the funds to produce the goods on order. The company realizes that it must find a source of financing and convince this source that the company has a bright future and that a good source of short-term credit would be the missing ingredient to make this company a success.

The company's sales for the first quarter have been 20,000 for January, 30,000 units for February, and 40,000 units for March. The selling price of the good is $3 per unit and is sold to its customers offering a discount if paid within the period from sale to the end of month or net 60 days. 60% of each month's sales are expected to be collected in the month following the sale and 8% of each month's sales are expected to be collected in the 2nd month following the sale. Credit terms are not expected to change in the next year from the present credit policy. The relationship between factory costs and the rate of output are indicated in the operating statement. Inventories of finished goods, however, are always valued at a "normal cost" of $2.10 per unit, that is, $2 per unit variable and $.10 per unit fixed. The $.10 per unit fixed is a figure based on the entire year's production and not one quarter.

Expected Unit Sales and Production for the next 6 months:

	Sales		Production
April	30,000	April	50,000
May	40,000	May	50,000
June	40,000	June	60,000
July	40,000	July	70,000
August	60,000	August	80,000
September	70,000	September	90,000

Materials are purchased each month for production and they are paid in the month in which they are purchased. A safety stock of raw materials is kept on hand to furnish a 30,000 unit production if needed. Cost of supplies and miscellaneous variable and fixed factory costs are paid in the month in which those costs are incurred.

Direct labor, indirect labor, and supervision costs make up the total factory payroll. These, as well as selling commissions and expense and all administration costs, are paid half in the month in which they are incurred, half in the following month. Power bills are paid in full in the month after they are incurred. Property taxes are paid quarterly and a disbursement of $3,000 will be made for these in April and July.

The company has an arrangement by which it may borrow up to $20,000 for not longer than 60 days from the Roger County Bank; the bank charges interest at 6 percent per year on such loans, payable at the maturity of the loan. A cash balance of $4,000 must be maintained. No more cash is to be borrowed than is necessary to maintain this balance, but loans are made only in full thousands of dollars.

Prepare:

(a) An estimated income statement showing the effects of the expected transactions for the second quarter and third quarter.

(b) Forecasts of collections from accounts receivable by months and of disbursements by months.

(c) A summary cash statement, showing the amount of bank loans and the repayment of them; this statement should also show the expected cash balance at September 30.

(d) An estimated balance sheet showing the expected financial position of the Illinois Novelty Company at September 30.

(e) Upon completion, you will have three income statements and two balance sheets. Make a complete comparative financial analysis involving these four statements.

Easy-Turn Toy Company

Income Statement

Quarter ended March 31, 1985

Revenue				
Gross billing (90,000 units at $3 each)			$270,000	
Less: Provisions for uncollectible acc.		$ 5,400		
Discount taken by customers		1,620	7,020	
Revenue from operations				$262,980
Beginning Inventory @ 2.00				
Expenses				
Factory cost of goods (110,000 units produced)				
Materials appropriated to production			$110,000	
Direct labor costs incurred			88,000	
Factory overhead				
Variable costs:	Indirect labor	$ 11,000		
	Power	4,400		
	Supplies, Misc.	6,600	22,000	
Fixed costs:	Supervision	6,000		
	Property taxes	3,000		
	Depreciation	3,000		
	Insurance	300		
	Miscellaneous	2,700	15,000	
Total factory costs incurred			$235,000	
Less: Unsold inventory of finished goods			42,000	
Factory cost of goods sold			$193,000	
Selling expenses (which vary proportionately with sales)			45,000	
Administration costs and expenses (fixed)			12,000	
Total expenses				$250,000
Net margin from operations				$ 12,980
Interest				750
Earnings before taxes				2,230
Income taxes				6,115
Net Profits				6,115

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Balance Sheet

March 31, 1985

Cash in bank		$ 3,580
Accounts Receivable	$ 94,200	
Allowance for Uncollectibles	5,400	88,800
Inventories		
Safety Stock	30,000	
Finished Goods	42,000	72,000
Prepaid Insurance		2,100
Plant and Equipment	190,000	
Allowance for Depreciation	3,000	187,000
Total Assets		$ 353,480

Liabilities

Factory wages and salaries	$ 23,500
Sales Commission and expense	10,000
Administration costs accured	2,000
Accured property taxes	3,000
Accounts payable (Power)	2,000
Interest Payable	750
Income taxes payable	6,115
Notes Payable(6%) 5 Year	50,000
Capital Stock	250,000
Retained Earnings	6,115
Total Liabilities and Equity	353,480