

CHAPTER CASE

PIEPKORN MANUFACTURING WORKING CAPITAL MANAGEMENT, PART 1

You have recently been hired by Piepkorn Manufacturing to work in its newly established treasury department. Piepkorn Manufacturing is a small company that produces cardboard boxes in a variety of sizes. Gary Piepkorn, the owner of the company, works primarily in the sales and production areas. Currently, the company puts all receivables in one shoe box and all payables in another. Because of the disorganized system, the finance area needs work, and that's what you've been brought in to do.

The company currently has a cash balance of \$154,000 and plans to purchase new box folding machinery in the fourth quarter at a cost of \$325,000. The purchase of the machinery will be made with cash because of the discount offered. The company's policy is to maintain a target cash balance of \$100,000. All sales are in cash and all purchases are made on credit.

Gary Piepkorn has projected the following gross sales for each of the next four quarters:

| | Q1 | Q2 | Q3 | Q4 |
|-------------|-----------|-----------|-----------|-----------|
| Gross sales | \$863,500 | \$918,500 | \$996,000 | \$924,000 |

Gross sales for the first quarter of next year are projected at \$908,000.

Piepkorn typically orders 50 percent of next quarter's projected gross sales in the current quarter, and suppliers are typically paid in 53 days. Wages, taxes, and other costs run about 30 percent of gross sales. The company has a quarterly interest payment of \$115,000 on its long-term debt.

The company uses a local bank for its short-term financial needs. It pays 1.5 percent per quarter on all short-term borrowing and maintains a money market account that pays 1 percent per quarter on all short-term deposits.

Gary has asked you to prepare a cash budget and short-term financial plan for the company under the current policies. He has also asked you to prepare additional plans based on changes in several inputs.

QUESTIONS

- Use the numbers given to complete the cash budget and short-term financial plan.
- Rework the cash budget and short-term financial plan assuming Piepkorn changes to a target balance of \$80,000.

PIEPKORN MANUFACTURING Cash Budget

| | Q1 | Q2 | Q3 | Q4 |
|------------------------------|----|----|----|----|
| Beginning cash balance | | | | |
| Net cash inflow | | | | |
| Ending cash balance | | | | |
| Minimum cash balance | | | | |
| Cumulative surplus (deficit) | | | | |

PIEPKORN MANUFACTURING Short-Term Financial Plan

| | Q1 | Q2 | Q3 | Q4 |
|------------------------------------|----|----|----|----|
| Target cash balance | | | | |
| Net cash inflow | | | | |
| New short-term investments | | | | |
| Income from short-term investments | | | | |
| Short-term investments sold | | | | |
| New short-term borrowing | | | | |
| Interest on short-term borrowing | | | | |
| Short-term borrowing repaid | | | | |
| Ending cash balance | | | | |
| Minimum cash balance | | | | |
| Cumulative surplus (deficit) | | | | |
| Beginning short-term investments | | | | |
| Ending short-term investments | | | | |
| Beginning short-term debt | | | | |
| Ending short-term debt | | | | |