Suggested Results on exercise on Balance Sheet Analysis

- **Observation 1: Accounts receivable have remained in the Rs.114,000 to Rs.118,000 range.**

☐ Are these receivables concentrated in any one company?

☐ Are there any uncollectible or old receivables?

☐ What is the probability that this trend will continue?

☐ Referring back to the income statement spread, how does the trend in accounts receivable compare to that in sales?

☐ If accounts receivable have grown at a faster rate than sales, is this because of a change in credit terms?

☐ Has the quality of Dry Supply's customers declined?

Ramchandra makes a note to get a current aged listing of accounts receivable from the business.

- **Observation 2: Inventory decreased during the period, while sales and accounts receivable increased**

☐ Are inventory levels adequate?

☐ What constitutes the inventory?

☐ Is it primarily dry cleaning products and other laundry items that might have some value as collateral? Or is it obsolete cleaning products that represent less value to a bank?

- **Observation 3: Fixed assets increased from Rs.130,000 on July 15, 2015 to Rs.163,000 on July 15, 2017**

☐ Was this increase for buildings or equipment?

☐ Were delivery trucks purchased to replace outdated equipment or to expand the business?

☐ If the equipment was needed temporarily, why was it not leased instead?

☐ What will be the change in long-term debt payments in future years as additional delivery equipment is needed?

☐ Are the assets efficient and consistent in terms of the sales they produce?

☐ As fixed assets increase, sales usually increase. Will the pending equipment purchases fulfill the company's needs?

☐ How will the new equipment be used?

- **Observation 4: Accounts payable showed a larger decrease than inventory. Some of the decrease is to be expected, because inventory usually is financed by trade creditors**

☐ Has Dry Supply quit using or lost access to any of its suppliers?

..☐ Have any suppliers reduced the amount of credit or the payment terms that they make available to Dry

Supply?

- Have any new suppliers been added during this period and, if so, what are their repayment terms?

- ## Observation 5: Loans from shareholders has grown from Rs.48,000 on July 15, 2015 to Rs.67,000 in July 15, 2017

- What is the specific structure (such as loan maturity, amortization schedule, interest rate, or collateral) of the loans from shareholders?
- Are the interest rates variable?
- In the structure of existing loans, are there any unusual stipulations that may affect repayment of any other loans?

- ## Observation 6: Turning to equity, what two questions immediately come to mind?

- How much of Dry Supply's equity was used to purchase delivery trucks?
- Is it management's intention to continue retaining most of the profits as equity in the company, rather than distributing the profits to the owners (as dividends)?

Once these and other questions have been answered, Ramchandra makes the following assessment of Dry Supply's strengths and weaknesses, as exhibited in its balance sheets:

Upon discussion with the borrower, Ramchandra gathered that one of the suppliers of Dry Supply was bankrupt and it had to buy some of the items from a new supplier on cash. Ramchandra has also noted that one delivery trucks was purchased last year. Inventory is made up of limited use items and their value as collateral is uncertain. Ramchandra has asked for aged listing of receivables.

Strengths	– Weaknesses	> Uncertainties (?)
Fixed assets are financed by long term liabilities. Asset mix	Higher debt Current asset financing mismatch	Quality of assets Availability of supplier's credit Shareholders debt subordination New equipment purchase Value of Inventory as collateral