

B-21.05

Nolan Johnson is CFO for a newly formed furniture manufacturing company. Below is the anticipated monthly production for the first year of operation, and beyond. Nolan is interested in learning which of the first twelve months will require cash outlays of more than \$100,000 toward the purchase of lumber. Each unit requires 20 board feet of lumber at \$5.80 per board foot. All lumber is purchased in the month prior to its expected use. Lumber purchases are paid for 10% in the month of purchase, 40% in the month following the month of purchase, and 50% in the second month following the month of purchase.

<u>Month</u>	<u>Units</u>
January	0
February	800
March	500
April	1,200
May	700
June	900
July	300
August	600
September	800
October	1,300
November	400
December	400
January	600

Which months will require cash outlays in excess of the \$100,000 amount? Does the production in any given month necessarily correspond to the cash flow for that same month? What are the business implications of your observation?