

Christina Chase was appointed CEO of Oshkosh Systems at the end of 20X3. Oshkosh manufactures several popular products, but is only achieving marginal financial success. Christina's first mission is to review operations and attempt to refine processes to improve financial condition and profitability. On the following page are the budgeted financial statements for the upcoming year.

Christina has identified three specific strategies to improve performance as follows:

- 1 Adopt strategies to reduce ending inventory levels by half. Assume that the 80% of this reduction will offset by a reduction in notes payable, and 20% will be offset by a reduction in accounts payable. The debt reduction is expected to decrease interest incurred and paid by \$150,000. Any benefit to income will be offset by a 40% tax cost, and the tax effect will result in a corresponding change in cash.
- 2 Adopt strategies to reduce corporate facilities used for SG&A. The company could immediately sell one of its buildings for \$700,000. The building currently has a cost of \$1,000,000, and accumulated depreciation of \$300,000. The budgeted balance sheet (as of the end of the year) includes the building at \$1,000,000, with accumulated depreciation of \$350,000. The budgeted SG&A includes \$50,000 of anticipated depreciation during 20X4. The \$50,000 increase in income, via the reduction of depreciation, will result in a corresponding \$20,000 (40%) increase in taxes. The net-after-tax cash generated from this transaction would be held in the Cash account.
- 3 Adopt strategies to accelerate collection of accounts receivable. The company currently carries about 90 days sales in receivables, and desires to reduce this to 60 days. The extra cash generated will be used to reduce accounts payable by \$300,000, and the remainder will be held in the Cash account.

Revise the budgeted income statement and balance sheet to reflect the preceding strategies. Evaluate the impact of Christina's proposed actions.

OSHKOSH SYSTEMS
Budgeted Income Statement
For the Year Ending December 31, 20X4

Sales		\$ 10,000,000
Cost of goods sold		
Beginning finished goods	\$ 2,000,000	
Cost of goods manufactured	5,000,000	
Goods available for sale	\$ 7,000,000	
Less: Ending finished goods inventory	3,000,000	
Cost of goods sold		4,000,000
Gross profit		\$ 6,000,000
SG&A		5,500,000
Income before interest and taxes		\$ 500,000
Interest		300,000
Income before taxes		\$ 200,000
Income taxes (40%)		80,000
Net income		\$ 120,000

OSHKOSH SYSTEMS
Budgeted Balance Sheet
December 31, 20X4

ASSETS

Current Assets

Cash	\$ 700,000	
Accounts receivable	2,400,000	
Raw materials inventory	1,000,000	
Finished goods inventory	3,000,000	
		\$ 7,100,000

Property, Plant, & Equipment

Plant and equipment	\$ 4,250,000	
Less: Accumulated depreciation	(1,700,000)	
		2,550,000
Total Assets		\$ 9,650,000

Liabilities

Current liabilities

Accounts payable	\$ 800,000	
Notes payable	4,700,000	
		\$ 5,500,000

Stockholders' equity

Common stock	\$ 1,400,000	
Retained earnings	2,750,000	
		4,150,000

Total liabilities and equity		\$ 9,650,000
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