

Arctic Blast has developed a cold treatment process for killing home-invading ants and termites. Their pesticide free process provides a highly attractive alternative to sprays and poisons. The business is growing quite rapidly and they are investing heavily in new equipment. Frank Miller is Arctic's treasurer and he is preparing a cash budget. The budget reveals that the company can anticipate periods of cash flow difficulties as they attempt to finance ever increasing amounts of receivables, inventories, and equipment.

Frank is evaluating the merits of eight alternative cash management strategies. Each has a potential downside that Frank must consider. Match each item in the "strategy" list with one of the "hazards."

Strategy

- Borrowing money
- Attempting to accelerate customer collections
- Delaying payments
- Writing checks against future receipts not yet deposited
- Slowing expansion plans
- Establishing bank overdraft protection or a line of credit
- Issuing additional capital stock
- Planning full utilization of cash flows, with no reserves

Hazard

- May necessitate offering of a discount
- May result in unnecessary financing costs
- May dilute ownership of existing shareholders
- May alienate key suppliers
- May result in unexpected shortfall
- May be an illegal strategy
- May give competitors an advantage
- May result in risk of financial failure