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**CASE STUDIES**
MANAGEMENT AND
ORGANIZATIONAL STUDIES

# Three Companies out of Cash

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## INTRODUCTION

On November 17th, 2021, Miriam Keita manager of the South African Small Business Foundation (SASBF) was set to hold three meetings with small to medium sized business owners who were seeking government grants of $25,000 to continue their respective firms that were in poor cash flow situations.

## MANGO - A - GOGO

Vidya Sengupta had moved to South Africa in 2014 and missed some of the flavours of home including a very popular brand of mango candy. In May of 2019 she opened her own business importing mango candies from Bengaluru, India and distributing them to retail stores throughout Africa. She was instantly very successful with sales in the first year of $860,000 and $4,220,000 by year two. The profitability of the business had doubled as a percentage between years and Sengupta managed to keep the same 35% cost of goods sold from her supplier as her business grew. Sengupta was ecstatic with her business' success and had purchased a second warehouse strategically located near the coast to expand the reach of the business. However, she was shocked to discover she had run out of cash considering her profitability was so strong.

## FABRIC IMPORT GROUP

Dowager Zetian had been running a fabric importing group in South Africa for over 25 years. She began the business by importing fabric from her husband's factory in the Gansu province of China. A few years ago, her son took over the factory in Gansu. Slowly, quality had been allowed to decline which had resulted in sales and profits also declining. Zetian knew that business was slowing down but after 25 years she was confident with some government support and a better understanding of financial statements, she could revitalize her business.

## PEBON GINSENG

Rosemarie Obomsawin had discovered an entire new world when she accepted a scholarship to attend school in South Africa. She often spent time with the other ex-patriots and discovered the traditional Chinese use of ginseng and how Canadian ginseng was desirable as it had the most balanced mix of the cited benefits of the herb. Obomsawin's knew of several suppliers in her native land of Quebec, Canada and began importing the Ginseng to re-distribute globally. Like Sengupta, she was elated to see her first-year sales of $550,000 grow to $2,700,000 in the next year. She was grateful that her suppliers could scale up and still charge the same for the cost of goods sold. Obomsawin did not understand how after so much investment she could still need more cash.

## REQUIRED:

Keita's job at SASBF was to teach the business owners' the value of the statement of cash flows and to assist them in interpreting the statement. Please explain the following to the business owners:

1. What are sources and uses of cash, how are they indicated on the statement of cash flows?
2. Why are non-cash items added back to the income line in the operations section?
3. What does a statement of cash flow measure? Why is cash flow management important?

For each of the statements please indicate:

a. If net income is a source or use of cash and give a dollar amount for the cash from net income for each year.
b. What are the major sources and uses of cash within operations? Are these expected and do you think they are sustainable in the long-term?
c. What are the major sources and uses of cash including financing and investing activities? Are these normal for a business and do you think they are sustainable in the long-term?
d. How do you feel about the overall management of the business?
e. Why are they running out of cash?

## EXHIBIT #1

**MANGO - A - GOGO**
**STATEMENTS OF CASH FLOWS**
**(for the years ending May 31)**

| **Operations** | **2021** | **2020** |
|---|---|---|
| Net Income | $422,143 | $43,456 |
| **Adjustments to Cash Basis:** | | |
| Depreciation | 16,000 | 5,000 |
| Accounts Receivable | (649,769) | (241,422) |
| Inventory | (154,428) | (79,431) |
| Accounts Payable | 646,889 | 54,924 |
| Prepaid Rent | (6,000) | (2,000) |
| Prepaid Insurance | (500) | (4,500) |
| Wages Payable | 8,000 | 3,200 |
| Line of Credit | 13,438 | - |
| *Net Cash Flows From Operations* | $295,773 | $(220,773) |
| **Financing Activities** | | |
| Common Stock | $75,000 | $500,000 |
| Dividends | - | (5,000) |
| Long Term Debt | 50,000 | - |
| *Net Cash Flow From Financing* | $125,000 | $495,000 |
| **Investing Activities** | | |
| Fixed Assets | $(470,000) | $(225,000) |
| *Net Cash Flow From Investing* | $(470,000) | $(225,000) |
| **Net Cash Flow** | **$(49,227)** | **$49,227** |
| **Beginning Cash** | **$49,227** | - |
| **Ending Cash** | - | **$49,227** |

## EXHIBIT #2

**FABRIC IMPORT GROUP**
**STATEMENTS OF CASH FLOWS**
**(for the years ending October 31)**

| **Operations** | **2021** | **2020** |
|---|---|---|
| Net Income | $195,904 | $210,650 |
| **Adjustments to Cash Basis:** | | |
| Depreciation | 44,649 | 45,745 |
| Accounts Receivable | 30,720 | 22,731 |
| Marketable Securities | 40,000 | 35,000 |
| Inventory | 9,142 | 9,855 |
| Accounts Payable | (9,416) | (10,150) |
| Notes Receivable | (100,000) | (300,000) |
| Credit Cards | 50,000 | - |
| Taxes Payable | 35,262 | 37,916 |
| *Net Cash Flows From Operations* | $296,773 | $51,747 |
| **Financing Activities** | | |
| Common Stock | $(35,000) | $(112,500) |
| Dividends | (175,000) | (125,000) |
| Long-Term Debt | (78,000) | 200,000 |
| Note Payable | 60,000 | - |
| Shareholder Loan | (105,000) | - |
| *Net Cash Flow From Financing* | $(333,000) | $(37,500) |
| **Investing Activities** | | |
| Fixed Assets | $15,000 | $(20,000) |
| *Net Cash Flow From Investing* | $15,000 | $(20,000) |
| **Net Cash Flow** | **$(21,739)** | **$(5,753)** |
| **Beginning Cash** | **$21,739** | **$27,492** |
| **Ending Cash** | **-** | **$21,739** |

## EXHIBIT #3

**PEBON GINSENG**
**STATEMENTS OF CASH FLOWS**
**(for the years ending June 30)**

| **Operations** | **2021** | **2020** |
|---|---|---|
| Net Income | $135,550 | $27,394 |
| **Adjustments to Cash Basis:** | | |
| Depreciation | 9,450 | 3,400 |
| Accounts Receivable | (781,127) | (136,970) |
| Inventory | (369,688) | (44,688) |
| Accounts Payable | 174,714 | 44,252 |
| Prepaid Rent | - | (5,000) |
| Utilities Payable | - | 500 |
| Working Capital Loan (WCL) | 75,000 | - |
| Accrued Exp. Payable | 4,713 | - |
| *Net Cash Flows From Operations* | $(751,388) | $(111,112) |
| **Financing Activities** | | |
| Preferred Stock | $300,000 | $ - |
| Common Stock | 400,000 | 400,000 |
| Personal Loan | 150,000 | - |
| *Net Cash Flow From Financing* | $850,000 | $400,000 |
| **Investing Activities** | | |
| Fixed Assets | $(262,500) | $(125,000) |
| *Net Cash Flow From Investing* | $(262,500) | $(125,000) |
| **Net Cash Flow** | **$(163,888)** | **$163,888** |
| **Beginning Cash** | **$163,888** | **-** |
| **Ending Cash** | **-** | **$163,888** |