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SHEMER

- The Shemer Company sells Purple markers.
- It purchases them for \$1.00 each and sells them for \$1.50.
- Inventory equals to shipments of the current month (that is, at the end of a given month, inventory level equals the shipments of that month).
- The firm pays its bills promptly (that is, cash is tendered at the time of purchase).
- Shemer collects cash from customers exactly one month after the sale.
- The sales manager predicts a steady increase in sales of 500 Purple markers each month beginning in February.

2

SHEMER

January 1: Cash, \$1,000; Inventory, \$500; Receivables, \$750.

In **January**, the firm sells, on account, 500 **Purple** markers, costing \$500, for \$750. The firm collects all receivables outstanding at the beginning of the month. Purchases equal 500 **Purple** markers, at a total cost of \$500. Net income for the month is \$250.

Prepare the following January report for Shemer:

IS	Cash	Inv	AR
	BB 1,000	BB 500	BB 750
Sales	Coll	Pur	Sales
COGS	Pay	Ship	Coll
NI	EB	EB	EB

BB - Beginning Balance; EB - Ending Balance; IS - Income Statement; COGS - Cost of Goods Sold; NI - Net Income; Inv - Inventory; AR - Accounts Receivable; Coll - Collections; Pur - Purchases; Ship - Shipments

- Do you anticipate any future problems for the Shemer Company? What do you need to do in order to verify your conjecture?

Prepare the following February report for Shemer:

IS	Cash	Inv	AR
	BB 1,250	BB 500	BB 750
Sales	Coll	Pur	Sales
COGS	Pay	Ship	Coll
NI	EB	EB	EB

Prepare the following March report for Shemer:

IS	Cash	Inv	AR
	BB	BB	BB
Sales	Coll	Pur	Sales
COGS	Pay	Ship	Coll
NI	EB	EB	EB

SHEMER - DISCUSSION

- Prepare an analysis that explains what happened to Shemer Company.
- How can a firm show increasing net income but a decreasing amount of cash?
- Assume Shemer would like to borrow funds from the Kozlik Bank at the prime interest rate plus 7.5% (say 1% per month). Would you recommend the Bank to approve such a loan?