



EXERCISE IN MAKING FINANCIAL PROJECTIONS

(“SUNCE”)

Are future operations going to provide sufficient cash for repayment of due debts? Is available cash going to be sufficient for continued production? Will creditors be satisfied with proposed dynamic for repayment of their claims? What is the expectancy for collection of receivables? Is there a danger of slow collection and jeopardizing relationship with suppliers? Is there a possibility of additional indebtedness in certain “critical” months when working capital needs are higher than in other months etc, etc...

The abovementioned, as well as numerous similar questions regarding future operations of “reorganized” debtor, bankruptcy trustee will try to answer in the Bankruptcy Plan, which would, besides other parts defined and provided by the Law on Bankruptcy, enable creditors to better review their current position with regard to claims against the debtor as well as to check the benefits of supporting the bankruptcy plan.

In continuation of this exercise carefully read data on past operations for the company “SUNCE” (Statements in attachment), which will help you make projections of balance sheet and income statement on your own for the next 12 months, and based on which we’ll be able to analyze liquidity and profitability ratios, incidentally very important for the interests of creditors who, based on projection results for operations, decide – liquidation of debtor or reorganization?!!

Carefully read the following instructions:

- The company is in business of producing sun tanning lotions (seasonal business);
- Monthly growth of production:

Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
1%	3%	3%	5%	15%	16%	23%	11%	11%	5%	4%	3%

- Production expenses are 60% of the sales;
- Operative expenses are 26,000 KM per month;
- Tax amount is 46% of profit before tax;
- Minimum cash is 3,000 KM;
- Days account receivables: 60 days;
- Monthly inventory: 75,000 KM
- Prepaid expenses: 3,000 KM per month;
- Fixed assets status: 21,000 KM every month;
- Other assets are 1,000 KM per month;
- Payables due in 30 days;
- Current portion of long-term debt due for payment each month is 5,000 KM;
- Income tax is paid only in “positive” months; and other taxes quarterly;
- Long-term debt status: 4,000 KM per month;
- Shares status: unchanged;
- Recapitalization: no changes;
- Retained earnings: adjust to profit or loss from the Income Statement; no dividend payments