The AKP's Company is a manufacturer of hardware items such as EDP processors, PLCs, electronic pumping devices and the like. The company was formed in the early 2000's as a consolidation of four smaller hardware suppliers and producers, in an effort to sustain and cope with the difficulties arising from stiff competition.

These types of hardware product sales are generally quite stable, but due to technology changes, individual firms experience considerably more instability than does the industry as a whole. For instance, if a firm 'misses the market', that is to say it does not receive well the changes in customer preferences for new designs, it will most probably experience significant sales reduction for as long as it fails to do so.

The company, whose financial statements are given in appendix A, markets its products to a large region in Southeast Europe. It has been prosperous throughout its 7th year history. Bob Cooper, Chairman and CEO of the Cooper's Company, has recently received a note from Joe Brant, vice president Finance, voicing his concern about the Company's working capital practices which in conjunction with the increasing trend in dividend pay-out might harm the company's liquidity in the medium term..

In fact, a preliminary analysis had been run on Cooper's finances by the Ivory analysts company following the closing of the 2007 fiscal year, and Joe had noticed that some of the company's ratios were showing downward trends, despite the fact that they were in line or higher than the averages for the hardware manufacturing industry. Although, Bob acknowledged receipt of Joe's concerns he neither replied to him showing interest, nor had taken action to correct the situation.

More specifically, the preliminary analysis indicated that some problems were developing, but no major ratio of the AKP's company was far below the industry's level. However, a second more thorough analysis of the company's financial statements for the past two to three years revealed some worried signals showing that the company's A/R and inventory ratios were constantly deteriorating.

In light of this info, Bob Cooper decided to make an appointment to see Joe, who has handled the Company's finances from early 2000. He felt eager to discuss possibilities and prerequisites of new credit policies and inventory handling practices, after receiving the second analysis which was run on the Company's newly implemented computerized financial analysis program.

According to the Company's credit policy, clients were given a 20 day credit and the option to get a 2% discount in case they were paying in full the amount invoiced within the first ten days from the invoiced date. If payment could not be honored within 15 working days, after the due date the Company could consider this inability as a credit event (default) and consequently to exercise its rights forcing the client in question either to pay or return the goods purchased and if none of them was deemed possible, to force the client in question into bankruptcy.

Most likely, Company had no intention of actually enforcing the specific clause of the contract to its full extent, but it did intend to use the clause in question to put pressure on clients to take some decisive action to improve their payment behavior.

Joe Brant has also informed Bob Cooper that the Federal Reserve System recently had tightened bank credit, forcing commercial banks including the First National Bank AKP's work with, to squeeze credit facilitation even to its good clients. Although Coopers seems to have no additional need for external financing for the moment, Bob was considerably troubled by this development.

At the company's directors' meeting held right after Bob's meeting with Joe he informed all participants, members of the executive management committee, about the latest developments in the Banking System and expressed his concerns whether the bank would continue to supply the present line of credit, let alone increase the loan outstanding, if AKP's is not in a position to improve its working capital management performance.

In this same meeting, Bob also presented a copy of Brant's latest computer analysis of AKP's financial statements for the last two fiscal years. At this point, Donna Frank, a university graduate in finance and accounting with five years of banking experience, was called upon and given the job to perform her own analysis of the company's financial statements for the last two years, provide explanations to her findings and where necessary to initiate suggestions for actions towards improvements to be made.

As a start she was told by Bob and Joe to perform a well supported ratio analysis. To this end she had to answer the series of questions that follow:

Questions:

Q1) Refer to AKP's financial statements. If she was a loan officer at the nearest bank, would she be willing to lend this company $4,000,000 at 10% over a ~~one-year period? Explain.~~ (Note that loan request assumption is for short term)

Q2) Why is liquidity important for AKP'S businesses?

Q3) Based on analyst's reports for the industry AKP Company operates, operating efficiency as it is measured by Total Asset Turnover ratio, has been estimated to be 1.2 times for the year 2007 and 1.5 times for 2006. How the AKP Company's overall utilization of assets compares against these ratios ? What is meant by the concept of "activity" as it relates to turnover ratios in general? Explain

Q4) Assume, Return on Assets (ROI) for the industry had been calculated at 10% for each year. Given that AKP has recorded ROI of approx 15% in 2007 and 13.5% in 2006, what information is provided by AKP's ROI when compared to the industry's avg ROI? What do profitability ratios measure in a company in general? Explain

Q5) Given that the company has credit terms of 2/10, n20 days and all sales are on credit. Assess if and what credit management problems does this company have, during 2006 and 2007.

Q6) Given AKP's ending levels of inventory; assess management's inventory performance during 2006 and 2007.

Q7) Given AKP's operating cycle of 139 days in 2006 and 143 days in 2007, what is the impact on AKP's working capital? Should management focus on these indicators given that Industry's operating cycle is recording constantly 90 days for the last 3 years?

Q8) Given AKP's net earnings per share evolution over the three years 2005-2007, explain the change as it probably relates to the market value of the Company's stock. Comment also on the Company's dividend pay-out policy during same period year. What are the possible explanations for AKP's dividend pay-out practice over the three years in question? Explain

Good Luck!

APPENDIX A

AKP COMPANY CONSOLIDATED INCOME STATEMENT
FOR THE YEARS ENDED DECEMBER 31

	2007	2006	2005
	(In thousands of dollars except for per share amounts)		
Total revenues	**$2,023,355**	**$1,954,174**	**$1,850,601**
Cost of goods sold	848,363	847,366	814,483
GROSS PROFIT	**1,174,992**	**1,106,808**	**1,036,118**
Selling, and general administration	743,902	708,310	656,473
Other (income)/expenses	(10,404)	3,300	10,436
Earnings Before Interest & Taxes (EBIT)	**441,494**	**395,198**	**369,209**
Interest	615	958	1,097
Earnings before income taxes (EBT)	**$ 440,879**	**$ 394,240**	**$ 368,112**
Income taxes	136,378	122,614	128,840
Net Income (NI)	**$ 304,501**	**$ 271,626**	**$ 239,272**
RETAINED EARNINGS			
Retained earnings at beginning of year	$ 632,139	$ 498,512	$ 346,541
Net Income (NI)	$ 304,501	$ 271,626	$ 239,272
Paid out dividend per share:	(152,023)	(137,999)	(87,301)
Retained earnings at end of year	$784,617	$632,139	$ 498,512
PER SHARE AMOUNTS			
Net earnings per share of common stock	$3.045	$2.716	$2.392
Dividends paid per share of common Stock *(rounded)*	$1.520	$1.380	$0.873

AKP COMPANY CONSOLIDATED BALANCE SHEETS
FOR THE YEARS ENDED DECEMBER 31

ASSETS		In thousands of dollars
Current assets:	2007	2006
Cash and cash equivalents	$ 214,572	$ 206,627
Accounts receivable, net	194,877	175,967
Inventory	256,108	247,392
Other assets	177,515	167,687
Total current assets	**$ 843,072**	**$ 797,673**
Property, plant, and equipment:		
Land	$ 36,013	$ 26,298
Buildings and building equipment	310,212	277,808
Machinery and equipment	173,865	126,368
Total PP&E	**$ 520,090**	**430,474**
Other long term assets	**157,593**	**114,979**
Total assets	**$1,520,755**	**$1,343,126**

LIABILITIES AND STOCKHOLDERS' EQUITY	2007	2006
Current Liabilities:		
Accounts payable	$ 76,691	$ 71,001
Dividends payable	23,222	22,034
Income taxes payable	49,491	53,460
Other payables--current	69,222	79,321
Total current liabilities	**$ 218,626**	**$ 225,816**
Long Term loans	$77,200	$54,300
Other long term liabilities	$40,312	$30,871
Stockholders' equity:		
Common stock *(100,000 shares)*	$400,000	$400,000
Retained earnings	$784,617	$632,139
Total stockholders' equity	**$1,184,617**	**$ 1,032,139**
Total liabilities and stockholders' equity	**$1,520,755**	**$1,343,126**