ONTARIO PRODUCTS

Elizabeth M. A. Grasby revised this case (originally written by John F. Graham and Richard H. Mimick) solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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Last year, Elise Hoffman immigrated to Canada from West Germany with her husband, Klaus, and they settled in the Muskoka region of the province of Ontario. While her husband Klaus had no difficulties locating employment in his trade as a mechanic, Hoffman, aware of the thousands of tourists visiting the Muskoka region throughout the year, decided to look around for a business that she could own and operate herself.

THE SEARCH

Shortly into her search, Hoffman discovered Ontario Products, a craft and gift distributorship that was for sale. The distributorship was a home-based business that specialized in products that originated from Ontario along with some European products. Ontario Products sold its goods to various gift shops throughout the Muskoka region. Hoffman believed that this was an ideal business for her because she had previously worked for a tourist-oriented gift shop in West Germany.

THE PURCHASE

On May 1, Hoffman bought Ontario Products for CA$11,500[1] and went into business. At the time, Ontario Products had assets of $1,500 in cash and $10,000 of accounts receivable—all less than 30 days old (see Exhibit 1).

OPERATIONS

No inventory was required to be on hand because sales to retailers were made through Ontario Products' online purchasing catalogue. The ordered merchandise was shipped directly to the retailer from Ontario Products' supplier within three days of an order being placed. In an emergency situation, Hoffman could drive to the supplier's warehouse in Barrie, which was approximately an hour's drive each way, and

[1] All currency amounts are in CAD unless otherwise specified.

personally deliver the merchandise to the customer within 24 hours. Hoffman was pleased that she could operate the business from her home with no additional fixed expenses.

On average, Hoffman paid $16 per unit for the products she sold to craft and gift retail shops. Because she was a new owner, the supplier had put Ontario Products on a cash on delivery (C.O.D.) basis, even though Hoffman always paid by cheque and the supplier accepted this form of payment. Hoffman marked all product costs up by 25 per cent; thus, the company's average selling price was $20 per unit. She offered her customers a 30-day credit with no discounts because this was the policy of the previous owner and was also a typical practice in the industry. Hoffman also fully understood that Ontario Products' profitability benefited when she offered this short-term financing function. Hoffman's variable expenses (i.e., those that varied directly and proportionately with volume) were payable in cash and were approximately 10 per cent of sales revenues.

THE FIRST THREE MONTHS OF OPERATION

Hoffman was pleased with the first three months of operations because sales had increased (see Exhibit 2). In addition to having a net profit (i.e., before tax), the market appeared to be growing at a reasonable rate. Hoffman expected to sell 1,000 units in August.

THE TELEPHONE CALL

In early August, before receiving her bank statement, Hoffman was surprised to receive a telephone call from her company's supplier. The supplier told Hoffman that he was very upset because his bank had just informed him that the last two cheques for a total of $800 that she had sent him in late July had "bounced;" in other words, her bank had returned her cheques to the supplier marked "NSF" or "Non-Sufficient Funds." The supplier demanded that she immediately bring him the $800 in cash and that, in the future, he would not ship orders until she had paid cash or the cheque had cleared, which could take about one week's time. Hoffman was upset by this news and she wondered what had gone wrong because she was certain that the business had been operating at a profit.

REQUIRED:

1. Prepare a separate statement of earnings (i.e., income statement) and a statement of financial position (i.e., balance sheet) for the months of May, June, and July as well as a cumulative statement for the three-month period as a whole. Use cash as your "plug" figure (it can be positive or negative) to balance the statement of financial position. Worksheets are provided.
2. What is happening to Hoffman's operation?
3. Prepare a statement of earnings and the statement of financial position for the month of August. What has happened to the cash position of the business? Why has this happened?
4. What should Hoffman do?
5. What actions can Hoffman take to assure the financial success of her new company?

EXHIBIT 1: STATEMENT OF FINANCIAL POSITION
as of May 1

ASSETS	
Current assets:	
Cash	$ 1,500
Accounts receivable	10,000
Total assets	$11,500
LIABILITIES & CAPITAL	
Liabilities	
Current Liabilities:	
Accounts payable	$ 0
Total Liabilities	0
Capital	
Capital, E. Hoffman	$11,500
Total liabilities & capital	$11,500

Source: Company documents.

EXHIBIT 2: FIRST THREE MONTHS DATA

	May	**June**	**July**
Actual volume (units)	500	600	750
Accounts receivables collected	$10,000	$10,000	$12,000
Purchases	$ 8,000	$ 9,600	$12,000

Source: Company documents.

WORKSHEET 1: PROJECTED STATEMENT OF EARNINGS
For May, June, and July

	May 1	May 31 (Proj.)	June 30 (Proj.)	July 31 (Proj.)	3-month total (Proj.)	Aug. 31 (Proj.)
Sales						
Cost of goods sold						
Gross earnings						
Less: Expenses						
Net earnings before taxes						

WORKSHEET 2: STATEMENT OF FINANCIAL POSITION
As at

	May 1	May 31	June 30	July 31	3-month total	Aug. 31
Currents assets:						
Cash						
Accounts receivable						
Inventory						
Total assets						
Liabilities & capital						
Liabilities						
Current liabilities:						
Accounts payable						
Loan (if needed)						
Total Liabilities						
Capital						
Capital, E. Hoffman						
Total liabilities & capital						