

BTN 16-3 Katie Murphy is preparing for a meeting with her banker. Her business is finishing its fourth year of operations. In the first year, it had negative cash flows from operations. In the second and third years, cash flows from operations were positive. However, inventory costs rose significantly in year 4, and cash flows from operations will probably be down 25%. Murphy wants to secure a line of credit from her banker as a financing buffer. From experience, she knows the banker will scrutinize operating cash flows for years 1 through 4 and will want a projected number for year 5. Murphy knows that a steady progression upward in operating cash flows for years 1 through 4 will help her case. She decides to use her discretion as owner and considers several business actions that will turn her operating cash flow in year 4 from a decrease to an increase.

ETHICS CHALLENGE

C1 A1



Required

1. Identify two business actions Murphy might take to improve cash flows from operations.
2. Comment on the ethics and possible consequences of Murphy's decision to pursue these actions.