ABC PLC is a medium sized manufacturer of components and faces a liquidity crisis.

a) Analyse the possible alternatives open to the firm in attempting to solve this problem

b) Explain the legal duties of the directors which are owed to the company and the shareholders in these circumstances.

a)

Maintaining cash flow is the most important aspects of company's financial management. An organisation's liquidity refers to its ability to pay its debts with cash when they become due. If a company has a liquidity or working capital problem, this means that they will have a problem meeting all their immediate or near future expenditure demands. Maintaining adequate working capital is important for both short term and long term. There is a wide range of sources to solve liquidity problem. Liquidity problem may take the form of converting some of assets that business can use, releasing cash for other uses. Firstly, the company can press debtors for earlier payments, namely reduce credit given to buyers. Usually, a discount could be offered to encourage early payments.

The company faces a liquidity crisis means that it does not enough cash to pay its debts and other expenditure. Solving this problem can use some methods. Assume that ABC PLC is a medium sized manufacturer of components and faces a liquidity problem. In my essay I will analyse the possible solutions to solve this problem.

Also the firm can issue reminder letters or make phone calls to ensure that payment is received on time. Thes e two measures improve cash flow efficiently and get cash inflows in, debt factoring is a good solution. The factor will pay about 80% of the value of an invoice to the firm at the outset and take responsibility for receiving payment from debtors. This service gives the firm immediate cash instead of a debt. It does not have to wait payments for a long time. The company's income can also be guaranteed. However, there is a charge for this service and the amount of charge will depend on several aspects such as size of debts. Another disadvantages is that the company wi ll lose some income from sales because the factor only pay 80% of invoice to

Secondly, delay payments to creditors. The company can use the cash they need in that period. But it may lead to longer time of the loss of trade and the customers may buy from another business next time.

Relatively, except increase cash in flow, delaying cash outflow is also a way to solve the company's liquidity crisis.

Extending a credit period will help short-term cash flow; this could be done by delaying payments of bills. That means there will be more cash in the bank for this period. The company can negotiate more credit with suppliers. In such a way, the company gets more time to pay the bills. These two actions can retain the cash in the bank during the periods of cash shortage. And improve cash flow problems. But this type of action will tarnish the credit reputation. The next time the supplier may refuse to provide a credit to the company. So attempting to extend credit is emergency method to solve the liquidity problem. It is not suit to long term.

Because ABC PLC is a manufacture company, so it may need to buy new machinery. But when the firm has a liquidity problem, it is better to leasing rather than buy fixed assets. This will free up capital, which can be used for other purposes and will retain some cash. But the business will never own the asset.

If the company has a lot of finish goods, it can sell them on a discounting price. This reduces the surplus stock and increases the sales. At the same time, it generates more money to solve the liquidity problem. But manufacturing company will require more stocks than a company in a service industry, so this action can lead to lower stocks of the company and may have other problems in the future activity. Because of the discounting price, the price structure may be undermined. These all have negative effect on the firm's long-term development.

Except reducing stock, the company can restrict purchases to improve cash flow problem. When the company is facing liquidity crisis, it would not have enough cash for bulk discounts. So ordering smaller amounts will effect profitability and cut down the expenditure. The cost saving can be used in other purposes to help improve the cash flow probably. However, reduce purchases may [illegible] some profits and hinder business [illegible] to continue.

To solve the liquidity problem, the company can find additional finance from the bank. Firstly, bank overdraft can be considered. This gives an organization the right to overdraw its current account at the bank by a certain amount. An overdraft is an ideal solution for overcoming shout term cash flow problems. Fro example, it can fund purchase of raw materials, whilst waiting payment on goods produced. But the bank will of course charge interest on the amount overdrawn and will only allow an overdraft if they believe the business is credit worthy. Even so for short-term borrowing, an overdraft is often an ideal solution. Secondly, the company can negotiate a long-term loan from the bank. The bank will charge interest on this and the interest plus part of the capital will have to be paid back each month. If a loan is obtained, then this will free up other capital held by the business, which can be used for other purposes. The company can repay overdraft with long-term loans. Again the bank will only lend if the business is credit worthy and it may require security. So the long-term loan is usually difficult to be obtained. Both overdraft and loan can provide cash that the company need immediately, but both need to be repaid and charge some interests.

In addition to the various sources of borrowed money, the company can sell assets of it’s owns to raise capital. This is often a last gasp measure because assets are usually vitally necessary to business activity, especially in a manufacture company. In most cases the company may adopt sale and lease-back to improve cash flow problems in the short term. Sale and lease-back releases cash and the company still retains its use. But on the other hand the company has to pay lease, which leads to an increase in additional costs. If the cash raised from the sale of asset is used effectively, cash flow can also increase in the long term.

In conclusion, every business needs to be able to maintain day -to-day cash flow and have enough capital to carry out it operations. As we can see, there are various ways to solve the ABC PLC 's liquidity problem; each has its advantages and disadvantages. Every method I have mentioned in my essay are ale to provide more cash during the periods of cash shortage, they help company to solve the liquidity problem. But some of them have negative effect on firm's long-term development. So the company should consider its circumstance at the time when it chose method to solve the problem.

b)

The directors of a company manage the company 's business on behalf of its members. A company has a "memorandum" and "articles" which constitute its rules and will include specific regulations about the duties and responsibilities of the directors. A Limited Public Company (PLC) must have a minimum of two directors. They carry a heavy burden of duties. They have common law duties, which include fiduciary duty and non-fiduciary duty and statutory duties under company law. Assume that ABC PLC is a medium sized manufacturer of components and faces a liquidity crisis. In my essay, I will explain the legal duties of the directors, which are owed to the company and shareholders in these circumstances.

Firstly, I will explain the common law duties of directors. The common law duties include fiduciary duty and non -fiduciary duty.

Fiduciary duty means that when exercising his powers a director must act not only in good faith and honestly but also in the best interests of company as a whole. The director should avoid conflict between personal and company interests. When the firm faces liquidity problem, the directors should find the way to solve the problem form the benefit of the shareholders. They must not use the company property or information by virtue of their position to make personal gain.

Non-Fiduciary duty requires directors exercise reasonable skill and care in carrying out their duties. They owe this duty to creditors, employees and the company. First of all, The Insolvency Act 1986 support that the directors of an insolvent or near insolvent company should consider the position and interests of the creditors. So the director of ABC PLC should act to minimize losses of creditors. Secondly, directors owe the duty to employees. They are required by law regard to the benefits of the company's employees as well as the benefits to the company. Thirdly, directors owe the duty to the company as a whole, in other words to the company's members collectively. The director of ABC PLC may seek professional advice from a practitioner or the company's auditors if the firm has possibility to insolvency. The director who breach of duty are not liable for breach of one, unless he knew or should known the act. If directors are liable together they are jointly and severally liable.

Directors have statutory duties under company law. Firstly, The Companies Act 1985 and other legislation require proper accounting records to be kept. The directors are responsible for the maintenance of those records. All transactions with the directors must be noted in the company 's account. The accounts must give a true and fair view and a copy of the accounts must be provided to each shareholder. In such a way, the director of ABC PLC can carry out detailed analysis of the financial situation. This is helpful to solve the liquidity problem.

Secondly, company law establishes a number of administrative requirements, which the directors must comply with. The directors must ensure that the company holds an annual general meeting (AGM) once a year and within fifteen months of the last one. The notice of meeting is 21days. The director of ABC PLC should have a report about their firm 's liquidity problem. If necessary the director have the right to call an extraordinary general meeting (EGM). The director should conducting business by passing resolutions in the correct manner. All the meetings must be minuted and signed by the chairman.

The directors are usually given wide powers to manage the company. These powers will be contained in the company's Memorandum and Articles of Association. The directors have duty to act within their powers. The director of ABC PLC may have the power to borrow money on the company's behalf to solve the liquidity problem. If the directors of company can make a declaration of solvency which states that the company will be able to pay all of its debts within a period not be longer than 12 months, then a voluntary liquidation take place.

In conclusion, the general role of directors is to manage the business of the company for the benefit of the members. They owe a duty to their companies to inform themselves about company's affairs and to supervise them. Directors must ensure that they understand the nature of the duty they are required to perform and have no conflict with company's interests. If a director can act within his power and fulfill all his duties the then company can develop under his direction.