

Suggested Answers to Business Sectors and Operating Cycle Exercise I

A. As a wholesaler, what activities the company's operating cycle likely to involve?

Dry Supply's operating cycle will involve purchasing finished products for sale to retailers such as laundries and dry cleaners.

B. What are the largest asset and the largest liability?

For this industry, the largest asset is inventory, followed closely by accounts receivable. The largest liability is accounts payable, which tends to follow or mirror inventory.

C. What risks may disrupt the operating cycle?

As a wholesaler, risks that may disrupt the operating cycle include the following:

- Quality of product**
- Inability to market products**
- Credit approval policies**
- Collection of accounts receivable**
- Relationship with vendors (accounts payable)**

D. What questions should Ramchandra ask to himself, at this stage?

Is the firm in an acceptable or targeted industry?

- Is the firm within the bank's defined market area?**
- Does adding this relationship cause the bank to exceed bank limits for the industry or the type of loan to be made?**
- Does the loan meet regulatory requirements?**

Although he has not decided to make a loan to Dry Supply, he has begun to perform the preliminary screening of the business.