

Business Sectors and Operating Cycle Exercise I

Background

Dry Supply is a wholesaler of dry cleaning equipment, cleaning supplies, and laundry soap. The company, which is located in New Baneshwor, Kathmandu, has been in business for over 10 years. Ramchandra, a Relationship Manager, has made a couple of introductory calls and knows that Dry Supply currently is owned by Mr. Jugal Kishor and his two sons and is organized as a Private Company. Based on this understanding, he can begin making a preliminary assessment of the loan request.

While performing his preliminary screening of the business, Ramchandra found the typical financial profile for the industry (see table below).

Wholesale Laundry and Dry Cleaning Equipment and Supplies (Typical Financial Data)

Assets	Percent	Liabilities	Percent	Income Statement	Percent
Accounts receivable	30%	Notes payable (short-term debt)	15%	Net sales	100%
Inventory	35%	Current maturities of long-term debt	3%	Gross profit	35%
Total current assets	76%	Accounts payable	20%	Operating expenses	32%
Net fixed assets	16%	Total current liabilities	47%	Operating profit	3%
		Long-term debt	13%	Profit before taxes	2%
		Total liabilities	65%		
		Net worth	35%		

Instructions

Answer the following questions using the operating cycle information in this course and the industry data provided.

- As a wholesaler, what activities the company's operating cycle likely to involve?
- What are the largest asset and the largest liability?
- What risks may disrupt the operating cycle?
- What additional questions should Ramchandra ask to himself, at this stage?