

CBE Competency 1
FS.C01.LM01
Module 1
Formative Assessment Quiz 1

Directions: Read the information about the Company described below and provide conclusions about the company's asset conversion cycle, borrowing and repayment cause:

Exotic Clothing Company:

The Company with main headquarters located in Orlando, Florida is engaged in the manufacturing of two primary lines of business: shoes and fashion bags. The merchandise is sold to various wholesalers for national distribution. The shoe line of clothing constitutes 75% the company's business lines and generates most of the company's sales and profits. The handbags line constitutes 25% of the company's total sales. Raw materials inventory, primarily used for the manufacturing of the business lines is obtained from suppliers in Asia and Europe. The Company usually approaches the Bank at the beginning of every fiscal year to request a credit advance. Outstandings under the line of credit are usually repaid in the last quarter of the year.

1. Are the Company's bank borrowings finance:
 - a. The operating cycle
 - b. The capital investment cycle activity

Response: Answer A. The Company's bank borrowings are primarily used to finance the asset conversion cycle

Answer B: Incorrect. The capital investment cycle involves the purchase of fixed assets and other support assets needed to support operating cycle activities and the recovery of those costs over the costs of several operating cycles.

2. What is the primary repayment source for the loans?
 - a. Sale of equipment
 - b. Liquidation of inventory in close outs
 - c. Cash flow from operations
 - d. Sales of real estate

Response: Answer C. Cash Flow from Operations

Incorrect: a

Incorrect: b

Incorrect: d