

CBE Competency 1
FS . C01.LM01.1Module 1
Learning Module Summative Assessment

Directions: Multiple Choice: Please select the answer that best describes the response to the issue presented

1. Rainbow Computers informs you that on average it takes 60 days to manufacture computers, sell them, and collect payment from its customers. Which option identifies this time period?

- a. Cash flow cycle
- b. Fixed asset cycle
- c. Operating cycle
- d. Days in inventory

Answer C: The operating cycle describes the time it takes for a firm to manufacture a product, sell that product, and collect payment.

- A.Incorrect
- B.Incorrect
- D.Incorrect

2. Which industry risk is common to manufacturer, wholesaler, service, and construction firms?

- a. Collection of accounts receivable
- b. Declining land values
- c. Change orders
- d. Product quality and mix

Answer A: Collection of accounts receivable is an industry risk that is common to manufacturer, wholesaler, service, and construction firms.

- B.Incorrect
- C.Incorrect
- D.Incorrect

3. What are the likely implications to its operating cycle and financing needs if Rainbow Computers decides to begin selling computers on credit?

- a. The operating cycle would increase and may require permanent financing from a bank.
- b. The operating cycle would decrease and may require short-term financing from a bank.
- c. The operating cycle would increase and may require short-term financing from a bank.
- d. The operating cycle would decrease and may require long-term financing from a bank.

Answer C: The operating cycle would increase and may require short-term financing from a bank if the firm were to sell computers on credit terms instead of require cash payment.

- A.Incorrect
- B.Incorrect
- D.Incorrect

4. Which source of repayment is normally associated with a permanent working capital line of credit?

- a. Conversion of current assets to cash
- b. Sale of inventory
- c. Cash flow from operations
- d. Excess cash from increased sales

Answer D: Excess cash generated from increased sales is the source of repayment for a permanent working capital line of credit

A.Incorrect

B.Incorrect

C.Cash Flow from Operations

5. Which option correctly defines the fixed asset cycle?

- a. Acquiring, funding, using and replacing fixed assets
- b. Acquiring, funding, using and replacing permanent inventory
- c. Acquiring and depreciating fixed assets over their useful life
- d. Acquiring inventory from the sale of fixed assets such as equipment or land

Answer A: Acquisition, funding, using and replacing of fixed assets defines the fixed asset cycle.

B.Incorrect

C. Incorrect

D. Incorrect

6. Which industry would most likely need short-term financing due to seasonal inventory needs?

- a. Service industry
- b. Agriculture industry
- c. Wholesale industry
- d. Manufacturing industry

Answer B: The agriculture industry is the most likely to need short term financing due to seasonal inventory needs.

A.Incorrect

C.Incorrect

D.Incorrect