

B-08.11

Bell Computers assembles and sells notebook styled computers. The company is attempting to better manage cash flow and reduce inventory. The most recent strategy has been to require major vendors to establish warehouses adjacent to Bell's factory locations. Bell then buys components from vendors as needed for same day delivery.

During 20X2, Bell had beginning inventory of \$23,000,000 and cost of goods sold \$168,000,000. Inventory at the end of 20X2 was \$33,000,000. During 20X3, cost of goods sold was \$440,000,000. Inventory at the end of 20X3 was \$55,000,000.

- (a) What is the relationship between cash flow and inventory?
- (b) One of Bell's product managers was very disappointed with the continuing increase in inventory from the beginning of 20X2 through the end of 20X3. He felt his directives to better manage inventory were not being followed. Prepare an inventory turnover ratio analysis for 20X2 and 20X3. Based on your analysis, is the company better managing inventory levels? How is it possible that the ratios are improving at the same time that inventory levels are expanding?