20 One-Liners to Remember

Quick-fire facts for last-minute revision.

1. **The LC limit formula is LC Limit = Consumption of Material (CM) multiplied by Total Time (TT), divided by 12.**
   This gives the monthly raw-material purchase multiplied by the total time the LC needs to cover.

2. **Total Time (TT) equals Lead or Procurement Time plus the Usance (Credit) Period.**
   Both components must be added together before applying the LC limit formula.

3. **A Letter of Credit is a written undertaking issued by the importer's bank assuring payment to the exporter for a genuine trade transaction.**
   This substitutes the bank's credit for the buyer's credit, reassuring the exporter of payment.

4. **Under an LC, the applicant is the importer or buyer and the beneficiary is the exporter or seller.**
   The issuing bank promises payment to the beneficiary on behalf of the applicant.

5. **Banks deal in documents, not goods, when honouring a Letter of Credit.**
   Payment is based strictly on whether presented documents match the LC terms, not on the physical shipment.

6 **An issuing bank can decline payment under an LC if there is a discrepancy in the documents presented.**
Document mismatch is the valid ground for refusal, unlike issues with the actual goods.

7 **For LC assessment, purchase value is taken on a CIF basis, meaning Cost, Insurance and Freight.**
This reflects the full landed value of goods rather than just their bare cost.

8 **Under a DP (Documents against Payment) LC, Total Time uses lead time only since there is no usance period.**
DP LCs are sight LCs where payment is made immediately on document presentation.

9 **Under a DA (Documents against Acceptance) LC, Total Time equals Lead Time plus Usance Period.**
DA LCs allow the buyer a credit period before payment, which extends the total time used in the formula.

10 **EOQ, or Economic Order Quantity, is the ideal order size that meets demand without overspending.**
It helps inventory managers cut holding costs while avoiding excess stock.

11 **If EOQ exceeds the calculated LC limit, the larger EOQ-based request is considered under DA-term LCs.**
This adjustment ensures the LC limit reflects genuine minimum procurement needs.

12 **The number of LCs to be opened under the EOQ method equals annual purchase divided by the EOQ value.**

This determines how many separate LCs the customer needs to open across the year.

13 **The frequency of LCs equals 12 divided by the number of LCs to be opened in a year.**

This gives the interval in months between successive LC openings.

14 **Applying EOQ to LC assessment keeps the outstanding LC amount below twice the EOQ value.**

A new LC is opened before the previous one is retired, capping the maximum outstanding exposure.

15 **A DPG, or Deferred Payment Guarantee, is assessed in the same manner as a term loan.**

It substitutes for a term loan, so the same assessment approach applies.

16 **An APG, or Advance Payment Guarantee, is assessed like a fund-based limit, with the advance amount deducted from the working capital gap.**

This is because the borrower receives advance payment for goods to be supplied later.

17 **LC limits sanctioned for importing raw materials generally reduce a borrower's working capital limit.**

The LC funds part of the purchase cycle, lowering the cash credit required.

18 **A working-capital LC cannot be used to import capital goods.**
Capital imports require the bank to separately check how the borrower will arrange funds to retire the LC.

19 **Forgetting to add usance for DA LCs is described as the single biggest error candidates make in LC numericals.**
DP uses lead time only, while DA requires adding the credit period to the lead time.

20 **LC limit calculations use monthly purchase figures, obtained by dividing annual consumption by 12, before multiplying by total time.**
Using annual figures directly instead of monthly figures is a common calculation mistake.