Assignment-10

Define Cash Conversion cycle

The Cash Conversion cycle [CCC] is a metric that measures the length of time it takes for a company to sell its inventory, collect account receivable, and pay its accounts payable. It's a key indicator of a company's efficiency in managing its working capital and cash flow.

CCC = DIO(+)DSO(−) DPO

Days Inventory Outstanding (DIO):-

The average number of days it takes to sell inventory.

Days Sales Outstanding (DSO):-

The average number of days it takes to collect payment after a sale.

Days Payables Outstanding (DPO):

The average number of days a company takes to pay its suppliers.

A lower CCC means the company is able to recover its cash more quickly while a higher CCC indicates that the company is taking longer to convert its resources into cash.