ASSIGNMENT-12

Define cash conversion cycle:

The cash conversion cycle (CC) is a metric that measures that time (in days) it takes for a company to convert its investment in inventory and other resources into cash flows from sales. It reflects the efficiency with which a company understanding how long each dollar invested in process it is tied up before it is converted into cash.

The formula for the cash conversion cycle is

CCC = Days Inventory outstanding (DIO) + Days sales outstanding (DSO) - Days payable outstanding (DPO)

Key components

Day Inventory outstanding (DIO)

The average number of days the company takes to turn its inventory into sales. A lower DIO indicates efficient inventory management

$$DIO = \frac{\text{Average Inventory}}{\text{Cost of Good Sold (COGS)}} \times 365$$

Day sales outstanding (DSO):-

The average number of days it takes the company to collect payment after making a sales. A low DSO means that company is collecting payment from ~~wey~~ quickly.

$$DSO = \frac{\text{Account Receivable}}{\text{Total Cross Sales}} \times 365$$

Days payable outstanding (DPO).

The average number of day the company takes to pay its suppliers after selling inventory. A higher DPO is generally better for cash flow as the company can hold onto its cash longer.

$$DPO = \frac{\text{Accounts Payable}}{\text{COGS}} \times 365$$