Assignment - 10

Define cash Convertion Cycle:-

The cash convertion cycle (ccc) is a metric that measures that time (in days) it takes for a company to Convert its instruction in inventory and other resources into cash flows from sales. It reflect the efficiency with which a company manages its working capital. The ccc helps a company understanding how long each dollar invested in operations its tried up before it is converted into cash.

The formula for the cash Convertion cycle is

CCC = Days Inventory outstanding (DIO) + Day Sales Outstanding Out Standing (DSO) - Days Payable Out standing (DPO)

Key components:-

Day inventory Out Standing (DIO):-

The average number of days the company takes to turn its inventory into sales. if lower D.I.O indicate 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. of lower DSO means the companys is collecting payment from customer quickly.

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

Days Payable Outstanding (DPO) :-

The average number of days the company takes to Pay its Supplier after receiving inventory. A higher DPO is generally better for cash flow as the company can hold onto its cash Longer.

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