10,000

WC 20,000. -10,000

CA-CL

₹10,000.

Applied Financial Statement Analysis

Assignment- 6 - 10

B. Vennila

1P23MM020

M.Com [CA].

Define cash conversion cycle:

The cash conversion cycle (ccc) is a metric that measures the time (in days) it takes for a company to convert its investments in inventory can other resources into cash flows from sales. It reflects the efficiency with which a company manages its working capital the ccc helps a company understanding how long each dollar ivested in operations 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 Payables outstanding (DPO)

Key components:

1. 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

$$DIO = \frac{\text{Average Inventory}}{\text{cost of goods sold (costs)}} \times 365$$

2. Days sales outstanding (DSO):

The average number of days it takes the company to collect payment after making a sale. A lower DSO means the company is collecting payments from customers quickly.

$$DSO = \frac{\text{Accounts receivable}}{\text{Total credit sales}} \times 365$$

3. Days payables outstanding (DPO):

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

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