Assignment - 10

Define cash converction cycle:

The cash converction 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 flow from sales. It reflect the efficing with which a company manager its working capital the ccc helps a company understanding how long each deal inverted in operations its tried before it is converted into cash.

The formula for the cash convertion cycle is

ccc = Days inventory outstanding (DIO) + Day sales outstanding (DSO) - payable outstanding (DPO)

Key components!

Day inventory outstanding (DIO)

The average number of days the company takes to two its inventory into sales it lower indicate efficient inventory management

$$DIO = \frac{\text{Average inventory}}{\text{Col by good sold (COGS)}} \times 365$$

Day sales outstanding (DSO)

The average number of days it takes the company to collect payment after making a sales. at Lower DSO means the companys is collecting payment from customer quicly

$$DSO = \frac{\text{Accounts Receivable}}{\text{Total Credit sale}} \times 365$$

Days payable outstanding (DPO)

The average number of days the company takes to pay its supplier after reciving inventory DPO is genoraly benifit yo cash flow as the company can hold into cash longer

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