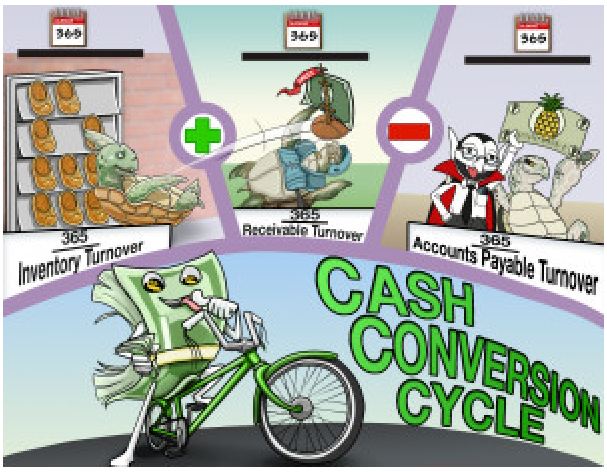
Cash Conversion Cycle

<p>CASH CONVERSION CYCLE</p> <p>The time between the initial outlay of funds for materials and the final collection of funds from clients. Typically a firm buys inventory on credit incurring accounts payable. A firm can also sell products on credit incurring accounts receivable. Cash is not involved until the company pays the accounts payable and collects accounts receivable. The cash conversion cycle measurement calculates the time between outlay of cash and cash recovery. It is a measure in days that it takes for a company to convert a resource into cash flow. The cash conversion cycle attempts to measure the amount of time each net input dollar is tied up in the production and sales process before it is converted into cash through sales to customers. It has three main components: days inventory outstanding, days sales outstanding, and days payable outstanding. </p> <p>Days Inventory Outstanding</p> <p>Inventory Turnover is a ratio showing how many times a company’s inventory is sold and replaced over a period. In accounting, it is calculated by dividing the Cost of Goods Sold by Average Inventory. Average inventory is used to minimize seasonal factors. This ratio should be used to compare against industry standards. A high ratio can represent strong sales or ineffective purchasing of inventory, and a low ratio can represent poor sales and excess inventory. By dividing 365 days by Inventory Turnover, one can calculate the Days Inventory Outstanding.</p> <p>Days Sales Oustanding</p> <p>Receivable Turnover is an activity ratio; it measures a firm’s efficiency in how it uses its assets and its effectiveness in extending credit and collecting debt. The formula for receivable turnover equation is calculated using Net Credit Sales divided by Average Accounts Receivable, represented by the turtle wide receiver. A high receivable ratio represents that a company’s extension of credit and collection of accounts receivable is efficient or that it simply operates on a cash basis. A low ratio represents that a company should modify its credit extension policies to collect accounts receivable on a more timely matter. By dividing 365 days by Receivable Turnover, one can calculate the Days Sales Oustanding.</p> <p>Days Payable Oustanding</p> <p>A short-term liquidity measure used to quantify the rate at which a company pays off its suppliers. Accounts Payable Turnover Ratio is a short-term liquidity measure used to quantify the rate at which a company pays off its suppliers. The accounts payable turnover ratio is calculated by dividing the total purchases made from the suppliers by the average accounts payable amount during the same period. This ratio reveals how many times per period a company pays its average payable amount. A low payable turnover represents that the company is taking longer to pay off its suppliers, and a rising turnover ratio means that the company is paying off its suppliers at a fast rate. By dividing 365 days by Payable Turnover, one can calculate the Days Payable Oustanding.</p>



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Days Inventory Outstanding (365 / Inventory Turnover)
365 over the In-vent-tory Turnover-turtle
Inventory Turnover is a ratio showing how many times a company's inventory is sold and replaced over a period. In accounting, it is calculated by dividing the Cost of Goods Sold by Average Inventory. Average inventory is used to minimize seasonal factors. This ratio should be used to compare against industry standards. A high ratio can represent strong sales or ineffective purchasing of inventory, and a low ratio can represent poor sales and excess inventory. By dividing Inventory Turnover by 365 days, one can calculate the Days Inventory Outstanding.

Days Sales Outstanding (365 / Receivable Turnover)
365 over Receiver Turnover-turtle
Amount of days it takes for a company to collect on sales. It measures a firm's efficiency in how it uses its assets and its effectiveness in extending credit and collecting debt. Smaller the number, the better.

Days Payable Outstanding (365 / Accounts Payable Turnover)
365 over A-count with Payable-pineapple and Turnover-turtle
Amount of days it takes to make payments on its own bills or Accounts Payable. a short-term liquidity measure used to quantify the rate at which a company pays off its suppliers. Longer the better, without incurring interests.