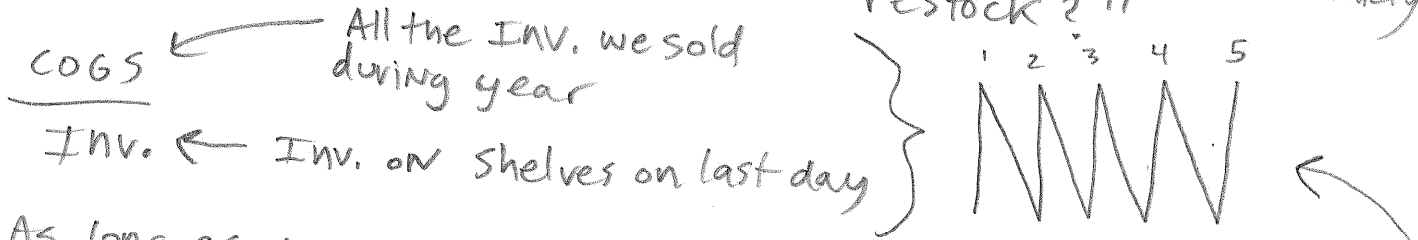


Asset utilization Ratios: number of days in cash cycle. (9)

Inventory Turnover = $\frac{COGS}{Inventory} = \frac{COGS}{Inv.}$ = "how many times did we run inventory down to zero and then immediately restock?"



★ As long as we are not running out of stock and foregoing sales, the higher this ratio is the better.

Example: $\frac{COGS}{Inv.} = \frac{5000}{1000} = \frac{\$5 COGS}{\$1 Inv.} = 5 \text{ times}$

we had to have inventory 5 different times on shelf.

Days' sales in inventory = $\frac{365 \text{ days}}{COGS/Inv.}$ = "how long it took us to sell one load of inventory"

↑
Days to sell inventory

Example: $\frac{365}{5} = 73 \text{ days}$

Receivables Turnover = $\frac{Net \text{ sales}}{Accounts \text{ Receivables}} = \frac{Sales}{AR}$ = "how many times did we collect all AR & then loan it out again per year."

Example: $\frac{Sales}{AR} = \frac{\$10,000}{1000} = 10 \text{ times}$

Day's sales in Receivables = $\frac{365 \text{ days}}{Sales/AR}$ = "Average time to collect AR"

↑
Days to collect AR

Example: $\frac{365 \text{ days}}{10} = 36.5 \text{ days}$

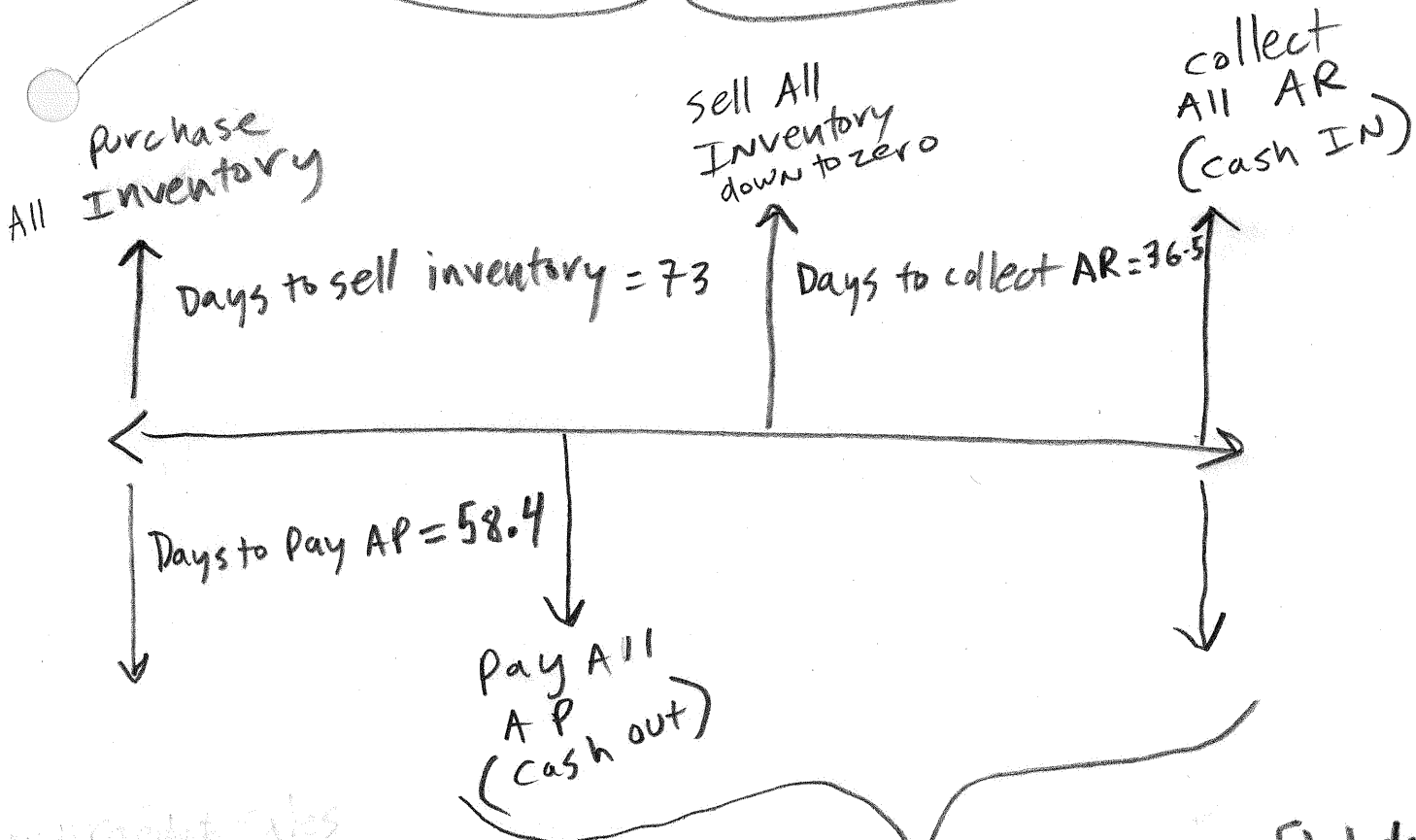
Payables Turnover = $\frac{COGS}{Accounts \text{ Payable}} = \frac{COGS}{AP}$ Example: $\frac{5000}{800} = 6.25$

Days to Pay Bills = $\frac{365 \text{ days}}{COGS/AP} = \frac{365 \text{ days}}{6.25} = 58.4 \text{ days to pay bills.}$

Operating cycle = Days to sell inventory + Days to collect AR = 73 + 36.5 = 109.5

cash cycle = operating cycle - Days to Pay Bills = 109.5 - 52 = 57.5

operating cycle = 109.5 days



net credit sales

COGS = \$5000
 Net Credit Sales = \$10000
 INV. = \$1000
 AR = Accounts Receivable = \$1000
 AP = Accounts Payable = \$800

cash cycle = 51.1 days

- ① $\left\{ \begin{array}{l} \text{Days to sell} \\ \text{All Inventory} \end{array} \right\} = \frac{365}{\frac{\text{COGS}}{\text{INV.}}} = \frac{365}{\frac{5000}{1000}} = \frac{365}{5} = 73 \text{ days}$
- ② $\left\{ \begin{array}{l} \text{Days to collect} \\ \text{All AR} \end{array} \right\} = \frac{365}{\frac{\text{Creditsales}}{\text{AR}}} = \frac{365}{\frac{10000}{1000}} = \frac{365}{10} = 36.5 \text{ days}$
- ③ $\left\{ \begin{array}{l} \text{Days to collect} \\ \text{All AP} \end{array} \right\} = \frac{365}{\frac{\text{COGS}}{\text{AP}}} = \frac{365}{\frac{5000}{800}} = \frac{365}{6.25} = 58.4 \text{ days}$
- ④ operating cycles in days = $73 + 36.5 = 109.5 \text{ days}$
- ⑤ cash cycle in days = $109.5 - 58.4 = 51.1 \text{ days}$