

## Answer on Question#39655 – Economics – Finance

### Assignment

Burger King Corp has \$30 million of sales, \$4 million of inventories, \$6 million of receivables and \$2 million of payables. Its cost of goods sold is 90 percent of sales. What is Burger King's Cash Conversion Cycle? If Burger King could lower its inventories and receivables by 15 percent each and increase its payables by 15 percent, all without affecting either sales or cost of goods sold, what would be the new CCC?

### Solution

In management accounting, the Cash conversion cycle (CCC) measures how long a firm will be deprived of cash if it increases its investment in resources in order to expand customer sales. It is thus a measure of the liquidity risk entailed by growth. However, shortening the CCC creates its own risks: while a firm could even achieve a negative CCC by collecting from customers before paying suppliers, a policy of strict collections and tax payments is not always sustainable.

CCC = # days between disbursing cash and collecting cash in connection with undertaking a discrete unit of operations

= Inventory conversion period + Receivables conversion period – Payables conversion period =  
= (Avg. Inventory/Cost of goods sold (COGS) + Avg. Accounts receivable/Sales – Avg. Accounts payable/[inventory increase + COGS])/ 365

$$CCC = (4/2.7 + 6/30 - 2/2.7)/365 = 0.0033$$

$$CCC2 = (4*0.85/2.7 + 6*0.85/30 - 2*1.15/2.7)/365 = 0.00158$$

So, the new CCC decreased twice.