

Question#6990

4. Your consulting firm was recently hired to improve the performance of Shin-Soenen Inc, which is highly profitable but has been experiencing cash shortages due to its high growth rate. As one part of your analysis, you want to determine the firm's cash conversion cycle. Using the following information and a 365-day year, what is the firm's present cash conversion cycle?

Average inventory = \$75,000

Annual sales = \$600,000

Annual cost of goods sold = \$360,000

Average accounts receivable = \$160,000

Average accounts payable = \$25,000

$$\begin{aligned} \text{Cash conversion cycle} &= \frac{\text{Average inventory}}{\text{Annual cost of goods sold}/365} + \frac{\text{Average accounts receivable}}{\text{Annual sales}/365} - \frac{\text{Average accounts payable}}{\text{Annual sales}/365} = \\ &= \frac{\$75,000}{\$360,000/365} + \frac{\$160,000}{\$600,000/365} - \frac{\$25,000}{\$600,000/365} = 76 + 97 - 25 = 148 \text{ days} \end{aligned}$$