

Answer on Question #44743 – Management - Other

The following information relates to mafuta safi limited
SHs. "000"

purchase of raw materials 6,700
usage of raw materials 6,500
sale on finished goods(all on credit) 25,000
cost of sale(finished good) 18,000
average creditors 1,400
average raw material stock 1,200
average work in progress 1,000
average finished goods stock 2,100
average debtors 4,700

assume a 365 day year

REQUIRED

a)The length of the operating cycle (12marks)

Solution

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usage of raw materials 6,500
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Operating cycle =

= Days Inventory Outstanding + Days Receivables Outstanding - Days Payables Outstanding =

= Average inventory*365/Cost of Goods Sold + Average Accounts Receivable*365/Net Sales –

- Average Accounts Payable*365/Cost of Goods Sold =

= (1200+2100)*365/18000+4700*365/(25000-18000)-1400*365/18000 = 283.6 days.