Cash Cycle / Cash Conversion Period

Problem 1:

Income Statement Data		Balance Sheet Data		
	Year Ending, First Quarter 1999		End of First Quarter 1998	End of First Quarter 1999
Sales	$3,968	Inventory	$470	$468
Cost of goods sold	3,518	Accounts receivable	471	481
		Accounts payable	304	303

a) Suppose that each year the company spends total cash for overall operations at $5,475 billion. How much minimum cash does the company need to have?

b) Suppose United States manufacturers are able to reduce inventory levels to a year average value of $250 billion and average accounts receivable to $300 billion. By how many days will this reduce the cash conversion cycle?

c) Suppose that with the same level of inventories, accounts receivable, and accounts payable, United States manufacturers can increase production and sales by 10 percent. What will be the effect on the cash conversion cycle?

Problem 2:

MAX Company, a producer of paper dinnerware, has annual sales $10 million and a cost of goods sold of 75% of sales. MAX has an average age of inventory of 60 days, an average collection period 40 days, and an average payment period of 35 days.

Find - Cash that MAX needs to use in cash conversion cycle

- If MAX could reduce average collection period by 5 days

Problem 3:

The Zocco Corporation has an inventory conversion period of 60 days, an average collection period of 38 days, and a payables deferral period of 30 days. Assume that cost of goods sold is 75% of sales.

a) What is the length of the firm's cash conversion cycle?

b) If Zocco's annual sales are $3,421,875 and all sales are on credit, what is the firm's investment in accounts receivable?

c) How many times per year does Zocco turn over its inventory?