

Homework 2

Operating Cycle

Inventory Period + Account Receivables Period

$$49.567 + 27.17 = 76.74$$

Days of inventory in hand or Inventory Turnover:

Cost of Goods Sold / Average Inventory

$$59,814 / (7,203 + 9041) / 2 = 7.36$$

Inventory Period:

365 Days / Inventory Turnover:

$$365 \text{ Days} / 7.36 = 49.567 \text{ Days}$$

Account Receivable Period:

365 Days / Receivables Turnover (Credit Sales / Average Account Receivables)

Receivables Turnover:

$$3,069 + 3995 / 2 = 7,064 / 2 = 3532$$

Net Sales:

$$95,982 / 3532 = 27.17$$

Account Receivable Period:

$$365 \text{ Days} / 27.17 = 13.43 \text{ Days}$$

Cash Cycle

Operating Cycle – Account Payable Period

$$76.74 - 25.07 = 51.67$$

Account Payable Period:

365 Days/ Payables Turnover

Payables Turnover:

Cost of Goods Sold/ Average Account Payables

Average Account Payables:

$$3,617 + 4,599 = 8,216 / 2 = 4,108$$

Payables Turnover:

$$59,814 / 4,108 = 14.56$$

Account Payable Turnover:

$$365 \text{ Days} / 14.56 = 25.07 \text{ Days}$$

The inventory and Receivables must be financed for 51 Days.

Beginning receivables	236	139	176	212
Sales	390	493	595	545
Cash Collections	487	456	559	563
Ending receivables	139	176	212	194

Total Cash Collections	487	456	559	563
Total Cash Disbursements	321	432	767	463
Net Cash Inflow	166	24	-208	100
Beginning Cash Balance	20	186	211	3

Net Cash Inflow	166	24	-208	100
Ending Cash Balance	186	211	3	103
Minimum Cash Balance	20	20	20	20
Cumulative Surplus	166	357	340	423

Collection from current month's sale = $(90 - \text{collection}) / 90$

Collection from current month's sale = $(90 - 32) / 90 = 29/45$

Cash collections = Beginning Receivables + $(29/45) * \text{Sales}$