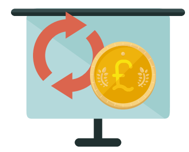
Cash Conversion Cycle

What is the Cash Conversion Cycle?

This is a formula that enables you to measure the time (in days) it takes you to collect the cash from sales of your inventory or from carrying out a piece of work i.e. how long each £ gets tied up in production before it is converted to cash.



Avoid Cash Burn

To avoid cash burn, make sure that there is more cash brought in during the month than the cash spent during the month. Aim to get money into your business regularly for a positive cash position each month.

5 Top Tips on Sales & Accounts Receivable

Make sure to look at your outstanding invoices (accounts receivable), just because it is invoiced does not mean that the money is in your bank.

- ✓ Invoice early and often to encourage payment
- ✓ Generate your sales invoices directly in Xero
- ✓ Shorten the length of time from the invoice date to the date of payment
- ✓ Make sure it is easy to get paid by offering direct debits and online payment options (e.g. GoCardless)
- ✓ Request deposits or partial payments for large orders and long-term contracts

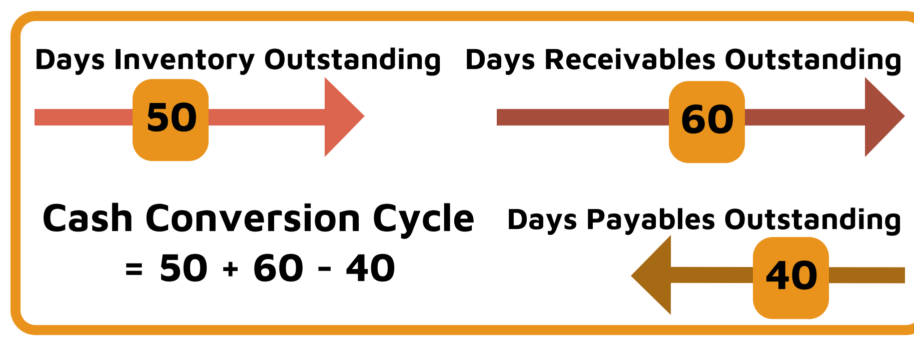
01483 802 892
www.chadsan.com
enquiries@chadsan.com

Calculate The Length of Your Cash Conversion Cycle

The formula is as follows:

Cash conversion cycle = Days Inventory Outstanding + Days Sales Outstanding – Days Payable Outstanding

By way of example if the days from when inventory is purchased until it is sold totals 50 days, the time from when the invoice is generated until it is actually paid totals 60 days and the number of days your company took to pay the payables invoices totals 40 days, then the length of time for cash to be converted is 70 days.



Businesses With Inventory

These have a longer cash conversion cycle and need to make sure there is cash available to make payments while waiting for the cash conversion cycle to complete - so make sure to keep inventory levels reasonable. Remember that buying inventory means an upfront investment.

Businesses Without Inventory

You should still make sure that your services have been paid for and money is not tied up in unpaid sales invoices. While there may not be money tied up in inventory there are still monthly cash outgoings for operating costs such as salaries. You should consider whether your invoices can be payable on presentation rather than after the often used 14 days.