

Maximizing Your Business

Glossary of Terms

Working Capital – A measure of the liquid assets available to be used in the operation of the business. (*Working Capital = Current Assets - Current Liabilities*)

Operational Efficiency – The ratio between the inputs required to run the business and the outputs gained from business operations

Days in Inventory – How long inventory stays in the company before sale. The lower the days in inventory, the less working capital is required. (*Days In Inventory = Ending Inventory / Costs of Goods Sold per Day*)

Collection Period – A measure of how quickly payment is received from customers. The quicker a company receives payment from customers, the less working capital is required. (*Collection Period = Ending Accounts Receivable / Revenue Per Day*)

Payment Period – A measure of how quickly vendors and suppliers are paid. The longer a business is able to hold on to cash before paying suppliers, the less working capital is required. (*Payment Period = Ending Accounts Payable / Cost of Goods Sold Per Day*)

Cash Conversion Cycle – A measure of the length of time cash is tied up in the company. Also known as Cash Collection Cycle. (*Cash Conversion Cycle = Days in Inventory + Collection Period + Payment Period*)

Inventory Turnover – A measure of how many times per year a company sells (or turns over) it's inventory. (*Inventory Turnover Ratio = Costs of Goods Sold / Inventory*)