

Paul Robbins training and consultancy

Credit Management

Working Capital Cycle

Exercise 2

You have been provided with the following extract from the latest Financial Statements of Newhaven Ltd.

Statement of Profit or Loss (Extract)		
	£	£
Sales		640,000
Less Cost of Sales		
Opening Inventory	78,000	
Purchases	412,000	
	490,000	
Closing Inventory	(86,000)	
		404,000
Gross Profit		236,000

Statement of Financial Position (Extract)		
	£	£
Current Assets		
Inventory	86,000	
Trade Receivables	65,000	
Cash	22,000	
		173,000
Current Liabilities		
Trade Payables		37,000

You should calculate the Inventory Holding Period, Accounts Receivable Collection Period and Accounts Payable Payment Period ratios and use your answers to calculate the working capital cycle.

Note that all sales and purchases are made on credit and that you should use the closing inventory value to calculate the Inventory Holding Period ratio.

You should express your answers to the nearest whole day.