**Cash conversion cycle** American Products is concerned about managing cash efficiently.

On the average, inventories have an age of 90 days, and accounts receivable

are collected in 60 days. Accounts payable are paid approximately 30 days after they

arise. The firm has annual sales of about $30 million. Assume there is no difference in the investment per dollar of sales in inventory, receivables, and payables;

and a 365-day year.

**a.** Calculate the firm’s *operating cycle*.

**b.** Calculate the firm’s *cash conversion cycle*.

**c.** Calculate the amount of resources needed to support the firm’s cash conversion

cycle.

**d.** Discuss how management might be able to reduce the cash conversion cycle.

**Cost of bank loan** Data Back-Up Systems has obtained a $10,000, 90-day bank

loan at an annual interest rate of 15%, payable at maturity. (*Note:* Assume a

365-day year.)

**a.** How much interest (in dollars) will the firm pay on the 90-day loan?

**b.** Find the *effective 90-day rate* on the loan.

**c.** Annualize your result in part **b** to find the *effective annual rate* for this loan,

assuming that it is rolled over every 90 days throughout the year under the same

terms and circumstances.