SOLUTION 6.1

Inventories holding period:

$$\frac{\text{Average inventories held}}{\text{Cost of sales}} \times 365 = \frac{(15{,}000+12{,}000)\div 2}{250{,}000} \times 365 = 19.71 \text{ days}$$

Settlement period for trade receivables:

$$\frac{\text{Average trade receivables}}{\text{Net sales}} \times 365 = \frac{(150{,}000+130{,}000)\div 2}{400{,}000} \times 365 = 127.75 \text{ days}$$

Settlement period for trade payables:

$$\frac{\text{Average trade payables}}{\text{Net purchases}} \times 365 = \frac{(75{,}000+55{,}000)\div 2}{253{,}000} \times 365 = 93.77 \text{ days}$$

Net purchases = Cost of sales + Ending inventory of goods for resale – Beginning inventory of goods for resale = 250,000 + 15,000 – 12,000 = €253,000

Payment for inventories occurs 93.77 days after they are purchased.
Similarly, goods for resale remain in the warehouse for 19.71 days, then they are sold, but the firm has to wait another 127.75 days before receiving money from customers.
So, the Operating Cash Cycle is 53.69 days, that is, the time period between the payment made to the supplier (93.77 days) and the cash received from customers (19.71 + 127.75 = 147.46 days). It measures the financing requirements of the business (the longer the cycle, the greater the financing requirements and the financial risks).