# Cash to Cash Cycle Time (C2C)

**Name**  
Cash to Cash Cycle Time (C2C)

**Description**  
The duration between the purchase of a firm's inventory and the collection of accounts receivable for the sale of that inventory. (Duration measured in days). Usually a company acquires inventory on credit, which results in accounts payable. The company will then sell the inventory on credit, which results in accounts receivable. Cash is therefore not involved until the company pays the accounts payable and collects accounts receivable. So the cash conversion cycle measures the time between outlay of cash and the cash recovery.

**Interpretation**  
The metric represents the time it takes for a dollar to flow back into your company after it has been spent on raw materials. It is one of the major metrics to determine how well your company is managing the financial flows from both your suppliers (through accounts payable) and your customers (through accounts receivable). The cash-to-cash cycle time determines how much liquidity a company needs. It represents the duration between the time cash is invested in goods and services to the time that investment produces cash. For example, a company that produces and sells goods has an cash-to-cash cycle comprising four phases:  
- Purchase raw material and produce goods, investing in inventory;  
- Sell goods, generating sales, which may or may not be for cash;  
- Extend credit, creating accounts receivables, and  
- Collect accounts receivables, generating cash.  
The longer the cash-to-cash cycle, the more current assets needed (relative to current liabilities) since it takes longer to convert inventories and receivables into cash. In other words, the longer the cash-to-cash cycle, the more net working capital required. Another factor for consideration is that purchases may be made on credit. By not paying for purchases immediately (using trade credit), your company reduces its liquidity needs. Similarly, the credit your company gives to your customers increases your cash-to-cash cycle time as it takes longer for customers to pay you. The information needed to calculate this measure can be found in the annual income statement and balance sheet of your company. Your company can simply use the figures prepared by your own finance department. This cycle is extremely important for companies whose focus is the retail sector. This measure illustrates how quickly a company can convert its products into cash through sales. The shorter the cycle, the more working capital a business generates, and the less it has to borrow.

**Calculation Formula**  
Cash to Cash Cycle Time = Days Sales Outstanding (DSO) + Inventory Days of Supply (IDS) - FIN - Days Payable Outstanding (DPO)

**Unit of Measure**  
Days

**Direction of improvement**  
minimize

**Industry Relevance**

**Country Relevance**