

# The Cash Conversion Cycle



Through the normal course of business, companies acquire inventory on credit, which they in turn use to create products. These products are then sold, oftentimes on credit. These actions generate accounts payable and accounts receivable, with no cash exchanged until the company collects accounts receivable and settles the accounts payable.

Measuring a company's ability to efficiently convert resource inputs into cash flows and why this is important for investors.

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