Operating cycle and inventory turnover

Amazon letters: 2004, 2002, 1999 · Difficulty: Intermediate

> *"We have a cash generative operating cycle because we turn our inventory quickly, collecting payments from our customers before payments are due to suppliers." (2004)*

1. Days of sales in inventory are 20, days of sales in accounts receivable are 5 and accounts payable days are 50. Using the letter's definition (inventory days + receivable days − payable days), what is the operating cycle (days; use a minus sign if negative)? _____

2. What does a negative operating cycle mean for Amazon?

   A. Its accounts receivable are uncollectible

   B. It collects cash from customers before it pays its suppliers

   C. It pays suppliers before it receives the goods

   D. Its inventory never sells

Source: Jeffrey P. Bezos, Letters to Amazon.com Shareholders: 2004, 2002, 1999 (ir.aboutamazon.com). Quotation © Amazon.com, Inc., all rights reserved; reproduced in part for non-commercial teaching. Numbers in the questions are made up unless stated.