**CONCEPT:** RATIOS – DAYS' PAYABLE OUTSTANDING (DPO)

● The ***Days' Payable Outstanding (DPO)*** helps analyze how long a dollar sits in AP before being __________

□ The Days' Payable Outstanding ratio is a common _______________ ratio

□ Days' Payable Outstanding is related to the AP Turnover Ratio, which we will review here:

$$AP\ Turnover = \frac{Purchases\ or\ COGS}{Average\ AP} = \frac{Purchases\ or\ COGS}{(Beginning\ AP + Ending\ AP) \div 2}$$

$$Days\ Payable\ Outstanding = \frac{365}{AP\ Turnover\ Ratio}$$

**Analysis**: The DPO tells us how many *days* a dollar sits in AP before being paid off

**Comparison**: Different industries have different reasonable DPO, use ***benchmarking***
_____________ DPO implies stronger liquidity because you can pay suppliers quickly
_____________ DPO implies that you take longer to pay, but could mean you have leverage with your suppliers

**EXAMPLE:** XYZ Company had net sales of $500,000 and COGS of $320,000. If the beginning balance of AP was $60,000 and the ending balance in AP was $100,000, what is the DPO?

a) 202 days
b) 114 days
c) 91 days
d) 73 days

**PRACTICE:** ABC Company had $200,000 in Net Sales and Gross Profit of $80,000. If AP had a balance of $60,000, what is the DPO ratio?

a) 274 days
b) 182 days
c) 110 days
d) Not enough information