Solutions

2.1

- $CCC = 60 + 35 - 41 = 54$ days.
- $NWC = 0.18 \times 1{,}100{,}000 = £198{,}000$.

2.2

- New sales = 1.65m; new NWC = $0.21 \times 1{,}650{,}000 = £346{,}500$.
- Extra cash = $346{,}500 - 198{,}000 = £148{,}500$ – the 1.5×1.167 multiplier at work.

2.3

- Profit is an opinion: the cycle grew with sales and worsened with terms.
- The cash cycle doubled the tie-up faster than profit replaced it – profitable and insolvent at once.

2.4

- Mismatch: 3-year money funding 8-year assets is refinancing risk – lengthen the debt or write the risk down.
- Equity is permanent and matches, but costs 13% – a pricing choice, not a free pass.
- Speed lever: collect faster or stretch payables honestly – each day of DSO/DPO moves about £3,000 of cash.