Days Payables Outstanding

Days payables outstanding (DPO) is the average number of days in which a company pays its suppliers. It is also called number of days of payables.

In general, a low DPO highlights good working capital management because the company is availing early payment discounts. However, the DPO should be corroborated by other ratios, particularly the liquidity ratios. When a company's liquidity position is good, a high days payables outstanding most likely tells that the company is delaying payments to its creditors till the last possible date to shorten its cash conversion cycle. It highlights good working capital management. However, if the liquidity situation of the company is not good, a high DPO suggests that the company is facing problems paying its suppliers.

Formula

$$\text{Days Payables Outstanding} = \frac{\text{Number of Days in a Period}}{\text{Payables Turnover for the Period}}$$