

## CONCEPT: RATIOS – TOTAL ASSET TURNOVER

- The **Total Asset Turnover Ratio** relates the amount of \_\_\_\_\_ to average total assets.
  - The Total Asset Turnover ratio is a common \_\_\_\_\_ ratio

$$\text{Asset Turnover} = \frac{\text{Net Sales}}{\text{Average Total Assets}} = \frac{\text{Net Sales}}{(\text{Beginning Total Assets} + \text{Ending Total Assets}) \div 2}$$

**Note:** An average balance is used in many ratios. It is always calculated as \_\_\_\_\_.  
If you are only given one balance (i.e. ending balance), just use that number (no average!)

**Analysis:** The Total Asset Turnover tells us how many dollars of sales we earn per dollar of total assets owned.

**Comparison:** Different industries have different reasonable Asset Turnovers, use **benchmarking** \_\_\_\_\_ turnover ratios imply a more efficient use of Assets

**PRACTICE:** XYZ Company had net sales of \$500,000 and COGS of \$320,000. If the beginning balance of Total Assets was \$300,000 and the ending balance in Total Assets was \$400,000, what is the Total Asset Turnover ratio?

- a) 0.51
- b) 1.25
- c) 1.43
- d) 1.67

**PRACTICE:** ABC Company had \$200,000 in Net Sales and Gross Profit of \$80,000. If Total Assets equaled \$400,000, what is the Total Asset Turnover ratio?

- a) 0.2
- b) 0.5
- c) 2.0
- d) 2.5