CONCEPT: RATIOS – ACCOUNTS RECEIVABLE TURNOVER

● The ***Accounts Receivable Turnover Ratio*** relates the amount of _______________ to average AR levels.

  □ The Accounts Receivable Turnover ratio is a common _______________ ratio

$$AR\ Turnover = \frac{Net\ (Credit)\ Sales}{Average\ Net\ AR\ Balance} = \frac{Net\ (Credit)\ Sales}{(Beginning\ AR + Ending\ AR) \div 2}$$

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 AR Turnover tells us how many sales dollars we get for each dollar of credit we extend.

Comparison: Different industries have different reasonable AR Turnovers, use ***benchmarking***
_____________ turnover ratios imply a more efficient use of AR (extending credit)

Red Flag: An abnormally _________ AR turnover may signal that credit terms are too tight.
The company could lose potential customers.

EXAMPLE: XYZ Company had net sales of $500,000 and COGS of $320,000. If the beginning balance of AR was $75,000 and the ending balance in AR was $25,000, what is the AR Turnover ratio?

a) 3.6
b) 6.66
c) 10
d) 20

PRACTICE: ABC Company had $200,000 in Net Sales and Gross Profit of $80,000. If AR had a balance of $16,000, what is the AR Turnover ratio?

a) 5
b) 7.5
c) 12.5
d) Not enough information