CONCEPT: RATIOS – ACCOUNTS PAYABLE TURNOVER

● The ***Accounts Payable Turnover Ratio*** relates the amount of ______________ to average AP levels.

☐ The Accounts Payable Turnover ratio is a common ______________ ratio

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

$$Purchases = COGS + Ending\ Inventory - Beginning\ Inventory$$

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 AP Turnover tells us how many times we are able to pay our AP during a year.

Comparison: Different industries have different reasonable AP Turnovers, use ***benchmarking***
____________ AP Turnover implies you pay your off your debts more quickly.

PRACTICE: 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 AP Turnover ratio?

a) 1.8
b) 3.2
c) 4.0
d) 5.0

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 AP Turnover ratio?

a) 1.33
b) 2.00
c) 3.33
d) Not enough information