CONCEPT: RATIOS – INVENTORY TURNOVER

● The ***Inventory Turnover Ratio*** relates the amount of _______________ to average inventory levels.

- □ The Inventory Turnover ratio is a common _______________ ratio

$$Inventory\ Turnover = \frac{Cost\ of\ Goods\ Sold}{Average\ Inventory} = \frac{Cost\ of\ Goods\ Sold}{(Beginning\ Inventory + Ending\ Inventory) \div 2}$$

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 Inventory Turnover tells us how many times we "turned" our inventory into COGS.

Comparison: Different industries have different reasonable Inventory Turnovers, use ***benchmarking***
_____________ turnover ratios imply a more efficient use of Inventory

EXAMPLE: XYZ Company had net sales of $500,000 and COGS of $320,000. If the beginning balance of Inventory was $60,000 and the ending balance in Inventory was $100,000, what is the Inventory 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 Inventory had a balance of $60,000, what is the Inventory Turnover ratio?

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