CONCEPT: RATIOS – AVERAGE DAYS IN INVENTORY

- The ***Average Days in Inventory*** helps analyze how long a unit sits in inventory before being __________
  - □ The Average Days in Inventory ratio is a common ________________ ratio
  - □ Holding inventory costs money (i.e. warehouse expenses like rent and utilities)
  - □ Average Days in Inventory is related to the Inventory Turnover Ratio, which we will review here:

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

$$Average\ Days\ in\ Inventory = \frac{365}{Inventory\ Turnover\ Ratio}$$

Analysis: The Average Days in Inventory tells us how many *days* a unit sits in inventory before being sold

Comparison: Different industries have different reasonable Days in Inventory, use ***benchmarking***
______________ days in inventory 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 Average Days in Inventory?

a) 202 days
b) 114 days
c) 91 days
d) 73 days

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 company's average days in inventory ratio?

a) 274 days
b) 182 days
c) 110 days
d) Not enough information