UNIVERSITY OF THE PEOPLE

BUS 4404-01 PRINCIPLES OF FINANCE 2 - AY2024-T3

WRITTEN ASSIGNMENT UNIT 2

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Question 1:

Inventory Turnover

Inventory turnover = Cost of Goods Sold / Avg Inventory

Cost of goods sold = 980,000

Average inventory = 90,000

To find inventory turns, cost of goods sold is divided by average inventory. With $980,000 COGS and $90,000 average inventory, the computation is $980,000 / $90,000 = ***10.88 turns***.

Average inventory holding time converts turnover ratio to days. With 10.88 annual turns and 365-year days, inventory sits ***33.54 days*** (365/10.88) on average before selling.

The turnover ratio quantifies how often inventory sells yearly. Converting to days shows efficiency in producing goods, managing stock levels, and generating sales. Higher ratios and lower average days indicate well-run operations.

Question 2:

Accounts Receivable Turnover

Accounts Receivable Ratio = Net Credit sales / Average Accounts Receivable

Net credit sales = 1,685,000

Average account receivable = 350,000

The Weaver Corporation's receivable turnover is computed by dividing net credit sales by average accounts receivable. With $1,685,000 net sales and $350,000 average receivables, the ratio equals $1,685,000 / $350,000 = ***4.81 turns yearly***.

To find days to collect receivables, the 365 days in a year is divided by the 4.81 turnover ratio. At 4.81 turns, it takes Weaver 365 / 4.81 = ***76 days*** to collect on receivables.

The receivables turnover ratio shows how frequently Weaver collects what customers owe over a year. Conversion to days demonstrates effectiveness at providing credit and collecting balances from clients. Higher turnover and lower days indicate efficient credit and collection policies.

Conclusion

Accurately calculating inventory and receivable turnover provides crucial financial analysis. For Weaver Corporation, the inventory ratio evaluates stock efficiency to improve management. It quantifies how rapidly products sell to generate sales. Meanwhile, receivable turnover examines collection process effectiveness and credit policy strength. Assessing these in turns furnishes vital data to boost operational and financial performance across production, sales, and cash flow. Tightening inventory management, aligning output with demand, accelerating collection, and strategically extending credit further optimize business practices. Monitoring turns helps transform Weaver's asset utilization, revealing opportunities for gains.

Reference:

Walther, L.M. & Skousen, C.J. (2009). Using Account Information. BookBoon: Ventus Publishing ApS. Retrieved from: https://my.uopeople.edu/pluginfile.php/1824210/mod_page/content/11/UsingAccInfo%20textbook%20link%2011.pdf

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