Financial ratios for Procter & Gamble Co. for 2021 and 2022:

Accounts Receivable Turnover Ratio

2021:

Net Sales: $76,118

Average Accounts Receivable: $4725

Accounts Receivable Turnover Ratio = Net Sales/Average Accounts Receivable

= $76,118/$4725

=16.11 times

2022:

Net Sales: $80,187

Average Accounts Receivable: $5143

Accounts Receivable Turnover Ratio = $80,187/$5143

= 15.6 times

Number of Days' Sales in Receivables

2021:

Number of Days' Sales in Receivables = 365/Accounts Receivable Turnover

= 365/16.11

= 22.66 days

2022:

Number of Days' Sales in Receivables = 365/15.6

= 23.4 days

Inventory Turnover Ratio

2021:

Cost of Products Sold: $37,108

Average Inventory: $5,983

Inventory Turnover Ratio = Cost of Products Sold/Average Inventory

= $37,108/$5,983

= 6.2 times

2022:

Cost of Products Sold: $42,157

Average Inventory: $6,924

Inventory Turnover Ratio = $42,157/$6,924

= 6.1 times

Days' Sales in Inventory

2021:

Inventory/COGS*365

5,983/37,108 * 365 = 58.8

OR

Days' Sales in Inventory = 365/Inventory Turnover Ratio

= 365/6.2

= 58.8 days

2022:

Days' Sales in Inventory = 365/6.1

= 59.8 days

How Inventory is Recorded on Balance Sheet

Inventory is recorded on the balance sheet at the lower of cost or net realizable value. Cost includes purchase costs as well as costs related to conversion for manufactured inventory. Net realizable value is the estimated selling price less costs to complete and sell the inventory. This method ensures that inventory is not overstated on the balance sheet.

Analysis

Procter & Gamble's accounts receivable turnover ratio decreased from 16.11 in 2021 to 15.6 in 2022. This indicates they are collecting payments from customers slightly slower in 2022 compared to 2021. However, the number of days' sales in receivables only increased from 22.66 days in 2021 to 23.4 days in 2022, which is a relatively small increase. Overall, their ability to collect payments from customers is still quite strong.

Their inventory turnover ratio also decreased slightly from 6.2 in 2021 to 6.1 in 2022. This shows inventory is moving through their system and being sold a little slower in 2022. Correspondingly, days' sales in inventory increased from 58.8 days in 2021 to 59.8 days in 2022. While slower inventory turnover could signify excess inventory or decreased demand, the small decline here is not too concerning.

In summary, Procter & Gamble demonstrated a slight deterioration in accounts receivable turnover and inventory turnover from 2021 to 2022. However, the differences are minor, and their ratios remain at healthy levels. The small declines could be attributed to supply chain disruptions or impacts from inflation rather than declining operating efficiency. Overall, Procter & Gamble continues to demonstrate strong working capital management.

Reference:

Franklin, M., Graybeal, P., & Cooper, D. (2019). Principles of Accounting, Volume 1: Financial Accounting | OpenStax. Openstax.org; OpenStax. https://openstax.org/books/principles-financial-accounting/pages/1-why-it-matters