"The inventory turnover ratio formula is equal to the cost of goods sold divided by total or average inventory to show how many times inventory is “turned” or sold during a period. The ratio can be used to determine if there are excessive inventory levels compared to sales" (Team, 2024). It displays the frequency of sales and subsequent replacements of an organization's inventory over a certain time range. Firms can then divide the number of days in the reporting period by the turnover ratio to determine the average days inventory sits before sale. A higher ratio and lower average days to sell suggests efficient operations, inventory management, and demand. It demonstrates a company's effectiveness at acquiring, producing, and selling its products to customers (Fernando, 2023). This ratio demonstrates how well a company manages and sells stock to drive sales. Efficient operations and inventory control typically produce higher ratios. Lower ratios indicate excess stock or weak demand.

Net credit sales divided by the average accounts receivable over a given time period yields the accounts receivable turnover ratio. It measures the frequency with which a business collects accounts receivable in relation to its outstanding customer amounts. A higher ratio indicates efficiency in extending credit terms to clients and collecting the resulting balances. It demonstrates how well a business leverages its accounts receivable assets by converting them to cash through effective credit and collection policies (Murphy, 2024). This measures how fast companies collect from clients. Higher turnover stems from efficient credit terms and collection. Lower means payment problems.

Inventory turnover denominator averages beginning and ending inventory. Numerator is the period cost of goods sold. The ratio shows inventory cycles from acquisition to sale per period.

Receivable turnover also averages initial and final receivables for the denominator. Net sales where credit extended is the numerator. It indicates effectiveness in providing and collecting customer credit.

Inventories and receivables represent future cash inflows. Turnover shows liquidating these assets into revenue and cash. Firms monitor for operational and financial gains. Fast inventory turnover points to lean production and sales. High receivable turnover reflects strong credit policies and collection to secure payment.

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