



Q15. A trading firm's average inventory is Rs.20,000 (cost). If the inventory turnover ratio is 8 times and the firm sells goods at a profit of 20% on sale, ascertain the profit of the firm.

Solution:

$$\text{Inventory Turnover Ratio} = \frac{\text{Cost of Revenue from Operations}}{\text{Average Inventory}}$$

$$\text{or, } 8 = \frac{\text{Cost of Revenue from Operations}}{20,000}$$

$$\text{or, Cost of Revenue from Operations} = 20,000 \times 8$$

$$\text{or, Cost of Revenue from Operations} = 1,60,000$$

Let Sale Price be 100

Then Profit is 20

$$\text{Hence, the Cost of Revenue from Operations} = 100 - 20 = 80$$

$$\text{If the Cost of Revenue from Operations is 1, then Revenue from operations} = \frac{100}{80}$$

If the Cost of Revenue from Operations is 1,60,000 then,

$$\text{Revenue from Operations} = \frac{100}{80} \times 1,60,000 = 2,00,000$$

$$\begin{aligned} \text{Profit} &= \text{Net Revenue from Operations} - \text{Cost of Revenue from Operations} \\ &= 2,00,000 - 1,60,000 \\ &= 40,000 \end{aligned}$$

***** END *****