



Q9. Compute Inventory Turnover Ratio from the following information

	₹
Net Revenue from Operations	2,00,000
Gross Profit	50,000
Inventory at the end	60,000
Excess of Inventory at the end over inventory in the beginning	20,000

Solution:

$$\text{Inventory Turnover Ratio} = \frac{\text{Cost of Goods Sold}}{\text{Average Inventory}}$$

$$\begin{aligned}\text{Cost of Goods Sold} &= \text{Net Sales} - \text{Gross Profit} \\ &= 2,00,000 - 50,000 \\ &= 1,50,000\end{aligned}$$

$$\begin{aligned}\text{Inventory in the beginning} &= \text{Inventory at the end} - 20,000 \\ &= 60,000 - 20,000 \\ &= 40,000\end{aligned}$$

$$\begin{aligned}\text{Average Inventory} &= \frac{\text{Inventory in the beginning} + \text{Inventory at the end}}{2} \\ &= \frac{40,000 + 60,000}{2} \\ &= 50,000\end{aligned}$$

$$\text{Inventory Turnover Ratio} = \frac{1,50,000}{50,000} = 3 \text{ times}$$

***** END *****