Q16. You are able to collect the following information about a company for two years.

	2013-14 ₹	2014-15 ₹
Trade Receivables on Apr. 01	4,00,000	5,00,000
Trade Receivables on Mar. 31		5,60,000
Stock in trade on Mar. 31	6,00,000	9,00,000
Revenue from Operations	3,00,000	24,00,000
(at gross profit of 25%)		

Calculate Inventory Turnover Ratio and Trade Receivables, Turnover Ratio.

Solution:

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

or,

$$\text{Cost of Revenue from Operations} = \text{Revenue from Operations} - \text{Gross Profit}$$
$$= 24{,}00{,}000 - 6{,}00{,}000$$
$$= 18{,}00{,}000$$

$$\text{Average Inventory} = \frac{\text{Inventory in the begining} + \text{Inventory at the end}}{2}$$
$$= \frac{6{,}00{,}000 + 9{,}00{,}000}{2}$$
$$= 7{,}50{,}000$$

$$\text{Inventory Turnover Ratio} = \frac{18{,}00{,}000}{7{,}50{,}000} = 2.4 \text{ times}$$

$$\text{Trade Receivables Turnover Ratio} = \frac{\text{Net Credit Sales}}{\text{Average Trade Receivables}}$$

$$\text{Average Trade Receivables} = \frac{\text{Trade Receivables in The begning} + \text{Trade Receivables at the end}}{2}$$
$$= \frac{5{,}00{,}000 + 5{,}60{,}000}{2}$$
$$= 5{,}30{,}000$$

$$\text{Trade Receivable Turnover Ratio} = \frac{24{,}00{,}000}{5{,}30{,}000} = 4.53 \text{ times}$$

Note:All sales are credit sales assumed.

*********** END **********