



Q14. Calculate Inventory Turnover Ratio from the data given below.

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Inventory at the beginning of the year	10,000
Stock at the end of the year	5,000
Carriage	2,500
Revenue from Operations	50,000
Purchases	25,000

Solution:

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

$$\begin{aligned}\text{Cost of Revenue from operations} &= \text{Inventory in the beginning} \\ &\quad + \text{Purchases} + \text{Carriage} - \text{Inventory at the end} \\ &= 10,000 + 25,000 + 2,500 - 5,000 \\ &= 32,500\end{aligned}$$

$$\begin{aligned}\text{Average Inventory} &= \frac{\text{Inventory in the beginning} + \text{Inventory at the end}}{2} \\ &= \frac{10,000 + 5,000}{2} \\ &= 7,500\end{aligned}$$

$$\text{Inventory Turnover Ratio} = \frac{32,500}{7,500} = 4.33 \text{ times}$$

***** END *****