FA Module 7 Turnover ratios practice exam questions

(The attached PDF file has better formatting.)

A firm's financial statements show

	Calendar Year 20XX-1	*Calendar Year 20XX*
Net revenue	541	547
Cost of goods sold	270	238
Net income	117	141
	December 31, 20XX-1	*December 31, 20XX*
Accounts receivable	85	91
Inventory	113	144
Accounts payable	48	59

All purchases and sales are on credit.

Question 7.2: Receivables turnover

What is the receivables turnover in 20XX?

Answer 7.2: 547 / ((85 + 91) / 2) = 6.216

(receivables turnover = credit sales / average accounts receivable)

Question 7.3: Days of sales outstanding (DSO)

What is the number of days of sales outstanding (DSO) in 20XX?

Answer 7.3: 365 / 6.216 = 58.72

(days of sales outstanding = days in year / receivables turnover)

Question 7.4: Inventory turnover

What is the inventory turnover in 20XX?

Answer 7.4: 238 / ((113 + 144) / 2) = 1.852

(inventory turnover = cost of goods sold / average inventory)

Question 7.5: Days of inventory on hand (DOH)

What is the number of days of inventory on hand (DOH) in 20XX?

Answer 7.5: 365 / 1.852 = 197.08

(days of inventory on hand = days in year / inventory turnover)

Question 7.6: Purchases from suppliers

What is the purchases of inventory from suppliers in 20XX?

Answer 7.6: 238 + (144 – 113) = 269

(purchases of inventory from suppliers = cost of goods sold + Δ(inventory))

Question 7.7: Payables turnover

What is the payables turnover in 20XX?

Answer 7.7: 269 / ((48 + 59) / 2) = 5.028

(payables turnover = purchases of inventory from suppliers / (average accounts payable))

Question 7.8: Days of payables

What is the number of days of payables in 20XX?

Answer 7.8: 365 / 5.028 = 72.59

(days of payables = days in year / payables turnover)

Question 7.9: Cash conversion cycle

What is the cash conversion cycle in 20XX?

Answer 7.9: 58.72 + 197.08 – 72.59 = 183.21

(cash conversion cycle = days sales outstanding + days inventory on hand – number of days of payables)