

FA Module 7 Turnover ratios practice exam questions

covering net revenue, cost of goods sold, net income, accounts receivable, accounts payable, receivables turnover, days sales outstanding (DSO), inventory turnover, days of inventory on hand (DOH), purchases of inventory from suppliers, payables turnover, days of payables, cash conversion cycle, days sales outstanding

(The attached PDF file has better formatting.)

A firm's financial statements show

	<i>Calendar Year 20XX-1</i>	<i>Calendar Year 20XX</i>
Net revenue	541	547
Cost of goods sold	270	238
Net income	117	141
	<i>December 31, 20XX-1</i>	<i>December 31, 20XX</i>
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 + (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)