

HOW TO CALCULATE INVENTORY TURNOVER RATIO

A simple way to test your inventory position is to use the **Inventory Turnover Ratio** i.e. stock turn.

Stock turn is the number of times in a year that stock turns, or is sold.

Annual cost of goods sold

Closing inventory value

=

Inventory turnover ratio

Example

Your annual cost of goods sold is \$1.25 million and your inventory level at the end of the year is \$400,000.
Your stock turn is \$1.25 million divided by \$400,000, which equals 2.8.

Annual cost of goods sold

\$1.25 million

=

2.8

End-of-year inventory value

\$400,000

Days of inventory on hand

You can divide the number of days in a year by your ITR to calculate the days of inventory on hand.
This is the number of days you have before you run out of that item.

Number of days in year

Inventory turnover ratio

=

Days of inventory on hand

Example

Number of days in year

365

=

130 days before you run out of that item

Inventory turnover ratio

2.8

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