## Accounts receivable turnover ratio = Credit sales for the year divided by the average accounts receivable during the year

## The amounts used on this form are taken from Filled-In Form R0.

Calculation of the accounts receivable turnover ratio includes:				
Net credit sales from the income statement for the year ended <u>Dec. 31, 2022</u> .				
Average accounts receivable computed from the balance sheet amounts during the year.				
Net credit sales	\$	170,000	CS	
divided by the average accounts receivable	\$	19,000	AAR	
= Accounts receivable turnover ratio		8.95	ART	(CS / AAR)

## Notes:

The accounts receivable turnover ratio is also referred to as the receivables turnover ratio.

- **CS** When the amount of credit sales is not available, the total amount of sales is often used.
- **AAR** Since the average amount of accounts receivable during the year is needed, you will need to look at the balance sheets throughout the year. If the amount of accounts receivable is approximately the same amount each month, a simple average of the amount at the beginning of the year and the amount at the end of the year will be sufficient. If the amount of accounts receivable varies significantly from month to month, a 13-month average should be used. See **Form G3**.

If the accounts receivable were \$18,000 at December 31, 2022 and were \$20,000 at December 31, 2021 and the monthly amounts in 2022 were similar, the simple average is \$19,000 (\$18,000 + \$20,000 = \$38,000 divided by 2).

**ART** The accounts receivable turnover ratio tells how many times per year the accounts receivable turn over in one year. Since the goal is to collect the accounts receivable, a larger ratio is better than a smaller ratio. If credit terms are net 30 days, an ideal turnover ratio is 12:1.

The accounts receivable turnover ratio is an *average* as some accounts are turning over faster than others. An aging of accounts receivable (available on most accounting software and via **Form G2**) will help you to identify the slow turning (slow paying) accounts.

The accounts receivable turnover ratio is used to compute the *days sales in accounts receivable* or *average collection period*, **Form R7**.