

Days' sales in accounts receivable = 365 days divided by the **accounts receivable turnover ratio**.

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

Calculation of the **days' sales in accounts receivable** includes:

Days in one year	365		
<i>divided by</i> accounts receivable turnover ratio	8.95	ART	
= Days' sales in accounts receivable	40.8	DS	(365 / ART)

or

Calculation of the **days' sales in accounts receivable**

Credit sales for year ended <u>Dec. 31, 2022</u>	\$ 170,000	CS	
<i>Average</i> credit sales per day	\$ 465.75	CSD	(CS / 365)
<i>Average</i> accounts receivable for year	\$ 19,000	AAR	
= Days' sales in accounts receivable	40.8	DS	(AAR / CSD)

Notes:

ART To compute the accounts receivable turnover ratio see **Form R6**.

DS The days' sales in accounts receivable tells how many days of sales are uncollected or outstanding. It is also referred to as the *average collection period* and *days' sales in receivables*.

The days' sales in accounts receivable is an *average* with some accounts receivable paying on time while some accounts receivable are significantly past due.

An aging of accounts receivable will help you determine the slow turning (slow paying) accounts. An aging report is usually available on your accounting software. If you do not have that capability, see **Form G2**.

CS When the amount of credit sales is not available, the total amount of all 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).

For a blank form see **Form R7**.

Learn more about financial ratios at www.AccountingCoach.com.