

Working capital turnover ratio = Total net sales or revenues for the year divided by the average working capital during the year

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

Calculation of **working capital turnover ratio** includes:

Total revenues from the income statement for the year ended December 31, 2022.

Average working capital is computed from the balance sheets during the year.

Total net sales or revenues for the year	\$	<u>230,000</u>	S
<i>divided by average</i> working capital	\$	<u>16,700</u>	AWC
= Working capital turnover ratio		<u><u>13.77 : 1</u></u>	(S / AWC)

Notes:

The working capital ratio is also known as *net working capital to net sales*.

S Total net sales or revenues are taken directly from the income statement for the period noted above.

AWC Since the *average* amount of working capital during the year is needed, you will need to first compute the amount of working capital on each balance sheet. Working capital is the amount of current assets minus the amounts of current liabilities (**Form R1**).

Next, you need to compute the average amount of working capital during the year. If the amount of working capital is approximately the same each period, 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 working capital varies significantly from month to month, a 13-month average should be used. See **Form G3**.

If the working capital at December 31, 2021 was \$22,400 (\$84,400 - \$62,000) and the working capital at December 31, 2022 was \$11,000 (\$72,000 - \$61,000) the simple average of these two amounts is \$16,700 (\$33,400 divided by 2).