Inventory turnover ratio = Cost of goods sold for the year divided by the **average inventory during the year**

Calculation of the **inventory turnover ratio** includes:			
Cost of goods sold from the income statement for the year ended _________________.			
Average inventory computed from the balance sheet amounts during the year.			
Cost of goods sold	$ ______________	**COGS**	
divided by the *average* inventory	$ ______________	**AI**	
= Inventory turnover ratio	______________	**IT**	(COGS / AI)

Notes:

COGS The cost of goods sold is reported on the income statement. Sometimes the amount of sales is used instead of the cost of goods sold. However, this is not logical because the inventory dollars are based on costs while sales dollars are based on selling prices.

AI Since the average amount of inventory during the year is needed, you will need to look at the balance sheets throughout the year. If the amount of the inventory 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 adequate. If the amount of inventory varies significantly within the year, a 13-month average should be used. **See Form G3**.

IT The inventory turnover ratio tells on average how many times the inventory turned over during the year. The ratio is an average of some items turning over many times per year while other items turn only once per year or once every two years.

The inventory turnover ratio is used to compute the *days sales in inventory* (**Form R9**).

See **Filled-In Form R8** for an illustration.