Stock turnover ratio or inventory turnover ratio =cost of goods sold ÷ average stock

cost of goods sold = opening stock + purchase – purchase return + direct expenses – closing stock

Sometimes we are required to apply another formula to calculate stock turnover ratio when gross profit and net sales given

cost of goods sold = net sales – gross profit on sales

Net sales= cash sales + credit sales – sales return

Average stock =opening stock + closing stock ÷ 2

Q.1 calculate stock turnover ratio from the following information.

Credit sales Rs 150000

Cash sales Rs 250000

sales return 25000

opening stock 25000

closing stock 35,000

Gross profit on sales 20%

Solution.

First of all cost of goods sold will be calculated as under

Cost of goods sold = net sale - gross profit on sales

=(150000+250000-25000)- 375000×20%

=375000-75000

=300000

Average stock= opening stock + closing stock ÷ 2

= (25000+35000)÷ 2

=30000

Now,

Stock turnover ratio or inventory turnover ratio =cost of goods sold ÷ average stock

=300000÷30000

=10times