

If the average collection period is 45 days, what is the receivables turnover?

Solution:

The receivables turnover ratio measures the number of times, on average, receivables are collected during the period.

The usual practice of using the receivables turnover ratio (RT) is to convert it into an Average Collection Period in terms of days.

$$\text{Average Collection Period} = \frac{365}{\text{Receivables Turnover Ratio}}$$

From this formula we can find the receivables turnover ratio.

$$\text{Receivables Turnover Ratio (RT)} = \frac{365}{\text{Average Collection Period}}$$

$$RT = \frac{365}{45} \approx 8.11$$

We can make a conclusion that accounts receivable are collected 8.11 times a year. This ratio can show how efficiently a firm uses its assets. To say how efficiently it really does it's needed to compare this ratio with average normal ratio among firms from the same industry.

Answer: 8.11 turnover times a year.