Answer on Question #37698 – Economics – Other

a. Calculate the inventory turnover for each year. Comment on your findings.
Inventory Turnover 2010 = $1,000,000/$350,000 = 2.86 times
Inventory Turnover 2011 = $1,200,000/$500,000 = 2.40 times

Inventory turnover declined in 2011 primarily because of the increase in inventory.

b. What would have been the amount of inventories in 2011 if the 2010 turnover ratio had been maintained?

Inventory 2011 = $1,200,000/2.86 =$419,580
So, to hold the same inventory turnover for the year 2011 the firm should decrease its inventory.