

Days' Sales Outstanding (DSO) Ratio

Days' sales outstanding ratio (also called *average collection period* or *days' sales in receivables*) is used to measure the average number of days a business takes to collect its trade receivables after they have been created. It is an activity ratio and gives information about the efficiency of sales collection activities.

Formula

Days Sales Outstanding is calculated using following formula:

$$\text{DSO} = \frac{\text{Accounts Receivable}}{\text{Credit Sales}} \times \text{Number of Days}$$

If possible, use the average accounts receivable during the period.

Another formula which uses the [accounts receivable turnover](#) is:

$$\text{DSO} = \frac{\text{Number of Days in the Period}}{\text{Accounts Receivable Turnover}}$$

