# Inventory Turnover Ratio

Inventory turnover is the ratio of cost of goods sold by a business to its average inventory during a given accounting period. It is an activity ratio measuring the number of times per period, a business sells and replaces its entire batch of inventory again.

## Formula

Inventory turnover ratio is calculated using the following formula:

$$\text{Inventory Turnover} = \frac{\text{Cost of Goods Sold}}{\text{Average Inventory}}$$

Cost of goods sold figure is obtained from the income statement of a business whereas average inventory is calculated as the sum of the inventory at the beginning and at the end of the period divided by 2. The values of beginning and ending inventory are obtained from the balance sheets at the start and at the end of the accounting period.