

CONCEPT: RATIOS – FIXED ASSET TURNOVER

- The **Fixed Asset Turnover Ratio** relates the amount of _____ to average fixed assets.
 - The Fixed Asset Turnover ratio is a common _____ ratio

$$\text{Fixed Asset Turnover} = \frac{\text{Net Sales}}{\text{Average Fixed Assets}} = \frac{\text{Net Sales}}{(\text{Beginning Fixed Assets} + \text{Ending Fixed Assets}) \div 2}$$

Note: An average balance is used in many ratios. It is always calculated as _____.
If you are only given one balance (i.e. ending balance), just use that number (no average!)

Analysis: The Fixed Asset Turnover tells us how many dollars of sales we earn per dollar of fixed assets owned.

Comparison: Different industries have different reasonable Asset Turnovers, use **benchmarking** _____ turnover ratios imply a more efficient use of Assets

PRACTICE: XYZ Company had net sales of \$500,000 and COGS of \$320,000. If the beginning balance of Fixed Assets was \$300,000 and the ending balance in Fixed Assets was \$400,000, what is the Fixed Asset Turnover ratio?

- a) 0.51
- b) 1.25
- c) 1.43
- d) 1.67

PRACTICE: ABC Company had \$200,000 in Net Sales and Gross Profit of \$80,000. If Fixed Assets equaled \$400,000, what is the Fixed Asset Turnover ratio?

- a) 0.2
- b) 0.5
- c) 2.0
- d) 2.5