

Topic Page: [Accounts receivable turnover](#)

Definition: **accounts receivable turnover** from *Dictionary of Accounting*

A statistic showing on average how long customers take to pay money they owe for goods or services received

Summary Article: **Accounts Receivable Turnover**

From *QFinance: The Ultimate Resource*

One of several measures used to assess operating performance, accounts receivable turnover also helps in appraising a company's credit policy and its cash flow.

WHAT IT MEASURES

The number of times in each accounting period, typically a year, that a company converts credit sales into cash.

WHY IT IS IMPORTANT

A high turnover figure is desirable because it indicates that a company collects revenues effectively, and that its customers pay bills promptly. A high figure also suggests that a company's credit and collection policies are sound.

In addition, the measurement is a reasonably good indicator of cash flow, and of overall operating efficiency.

HOW IT WORKS IN PRACTICE

The formula for accounts receivable turnover is straightforward. Simply divide the average amount of receivables into annual credit sales:

Receivables turnover = Sales/Receivables

If, for example, a company's sales are \$4.5 million and its average receivables are \$375,000, its receivables turnover is:

$$4,500,000/375,000 = 12$$

TRICKS OF THE TRADE

- It is important to use the average amount of receivables over the period considered. Otherwise, receivables could be misleading for a company whose products are seasonal or are sold at irregular intervals.
- The measurement is also helpful to a company that is designing or revising credit terms.
- Accounts receivable turnover is among the measures that comprise asset utilization ratios, also called activity ratios.

MORE INFO

Book:

Salek, John G. *Accounts Receivable Management: Best Practices*. Hoboken, NJ: [Wiley](#), 2005.

See Also:

Asset Utilization

APA

Chicago

Harvard

MLA

Accounts receivable turnover. (2014). In Qatar Financial Center, & Qatar Financial Center (Eds.), *QFinance: the ultimate resource* (5th ed.). London, UK: A&C Black. Retrieved from https://search.credoreference.com/content/topic/accounts_receivable_turnover



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Chicago

"Accounts Receivable Turnover." In *QFinance: The Ultimate Resource*, edited by Qatar Financial Center, and Qatar Financial Center. 5th ed. A&C Black, 2014.

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Harvard

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https://search.credoreference.com/content/topic/accounts_receivable_turnover. Accessed 14 Oct. 2019.