## Formula to find Debtors or receivables turnover ratio

The following formula is used to calculate Debtors/Receivables Turnover Ratio.

**Debtors/Receivables Turnover Ratio (or) Debtors Velocity** =  Net Credit Annual Sales ÷ Average Trade Debtors

Here,

**Net Credit Annual Sales** = Gross Sales – Trade Discount – Cash Sales – Sales Returns

**Trade Debtors** = (Sundry Debtors + Bills Receivables) or Accounts Receivables

**Average Trade Debtors** = (Opening Trade Debtors + Closing Trade Debtors) ÷ 2

While calculating debtors, the provision for bad and doubtful debts should not be deducted from them.

In the absence of opening and closing balances of trade debtors and credit sales, the debtors turnover ratio can be calculated by dividing the total sales by the balance of debtors (including bills receivable).

The formula is written as

**Debtors Turnover Ratio** = Total Sales ÷ Debtors

Average collection period = 365 days or number of working days in a year ÷ debtors turnover ratio