ACCOUNTS RECEIVABLE TURNOVER:

The turnover is calculated as under:

$$\frac{Net\ Credit\ sales}{Average\ Balance\ of\ Account\ Receivable}$$

Firms use monthly average to determine the turnover. The average time of receivables depends on the credit terms and seasonal position.

LIQUIDITY RATIOS:

Liquidity ratios help the company and its creditors to know the ability of the business to clear its short term debts.

Liquidity ratios are of two types:

1. Currents ratio.
2. Quick ratio.
3. Net working capital turnover.

CURRENT TATIO:

It is arrived at by dividing total current assets by total current liabilities.

$$\frac{Net\ Credit\ sales}{Average\ Balance\ of\ Account\ Receivable}$$

The best current ratio is considered at 2 to 1 or better. The higher the current ratio the better is the paying position in the eyes of the creditors.

QUICK RATIO:

His ratio compares the current assets with the current liabilities. In this type of ratio only highly liquid assets such as cash, receivables and marketable securities are taken into account ignoring inventories.

The formula of knowing quick ratio is as under.

$$\frac{Total\ Current\ Assests - Inventories}{Total\ Current\ Liabilities}$$

NET WORKING CAPITAL TURNOVER:

It is the ratio that shows the efficiency of the company managers and measures the firm's productivity in

Maximizing sales. It is measured as follows.

$$Net\ Working\ Capital\ Turnover = \frac{Net\ Sales}{Net\ Working\ Capital}$$