



LESSON CONTENT TEMPLATE

 <p>Erasmus+</p>	<p>Project funded by: Erasmus+ / Key Action 2 - Cooperation for innovation and the exchange of good practices, Knowledge Alliances.</p>
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1. Lesson Document

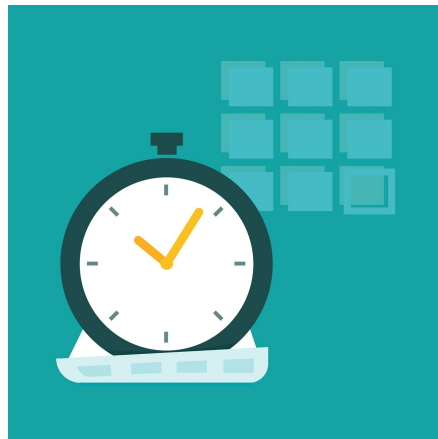
Topic 6: Financial Ratios

Lesson 2

Efficiency

Introduction

Efficiency is an important attribute. Time, money and raw materials are limited and it is important to preserve them while maintaining an acceptable level of production. In this lesson, we will learn more about efficiency and the formulas that we can use.



Resource: [Pixabay](#)

Efficiency focuses on measuring the performance of the short-term or current performance of the enterprise.

Days payable - It measures the speed at which a company pays its bills. . (*Finance and Business Strategies for the Serious Entrepreneur, 2008*)

$$\text{Days payable} = \text{Accounts payable}/(\text{COGS}/365)$$

Collection ratio ("days receivable") - It measures the quality of the accounts receivable. (*Finance and Business Strategies for the Serious Entrepreneur, 2008*)

$$\text{Collection ratio} = \text{Accounts receivable}/(\text{revenues}/365)$$

Inventory turns - It measures the number of times inventory is sold and replenished during a given time period. . (*Finance and Business Strategies for the Serious Entrepreneur, 2008*)

Inventory turns = COGS/average inventory outstanding

Day inventory carried - It measures the average amount of daily inventory being carried. (*Finance and Business Strategies for the Serious Entrepreneur*, 2008)

Day inventory carried = Inventory (COGS/365)

Conclusions

Efficiency is the basic reduction in the amount of wasted resources used to produce a certain number of goods or services.