

# Understanding your Stock Turn ...

Control of stock in business (where relevant) is extremely important in managing your cash flow

1 Information Required To do this you need a detailed trading account that shows:

	2008		2007	
	£	£	£	£
Sales		800,000		750,000
Opening Stock	200,000		200,000	
Purchases	550,000		575,000	
Closing Stock	(150,000)		(200,000)	
<b>Cost of Sales</b>		<b>(600,000)</b>		<b>(575,000)</b>
<b>Gross Profit</b>		<b>200,000</b>		<b>175,000</b>
<b>GP%</b>		<b>25.0%</b>		<b>23.3%</b>

2 Stock Turn = Closing Stock / Cost of Sales x 12(months)

In this example

$$\frac{150,000}{600,000} \times 12 = \underline{\underline{3.00}} \quad \frac{200,000}{575,000} \times 12 = \underline{\underline{4.2}}$$

So, Closing stock at the end of 2008 represented **3 months** and **4.2 months** the previous year.

3 Savings

For businesses who carry inventory, it is extremely important to focus on reducing your stock turn to optimise your cash flow..

If for example **6 weeks** stock would be sufficient on average then the stock needed at the year end on this basis would be:

Cost of Sales	X	$\frac{6}{52}$	or	600,000	X	$\frac{6}{52}$	=	£ 69,231
Saving	=	150,000	-	69,231	=		=	<u><u>£ 80,769</u></u>

**So cash flow would improve by nearly £81k, generating annual interest of around £2.4k, or saving around £3k on overdraft interest, and making a substantial improvement to your cash flow.**



**Aspire Management Services**

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