

RATIO ANALYSIS- 1

Liquidity Ratio

The liquidity ratio is a **financial ratio** that defines whether a company has enough working capital to pay down its short-term debt.

CURRENT RATIO

The Current Ratio looks at a company's **total current assets**—cash assets and otherwise—against their **total current liabilities** like debt obligations.

FORMULA

The Current Ratio formula is:

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Current Assets = Inventory+ Accounts Receivables+ Cash Equivalents+ Cash

Current Liabilities = Accruals + Accounts Payable + Notes Payable

QUICK RATIO

The Quick Ratio considers a **company's cash and cash equivalents, short-term investments, and accounts payable** against its **current liabilities**.

FORMULA

The Quick Ratio formula is:

$$\text{Quick Ratio} = \frac{(\text{Cash and Cash Equivalents, Accounts Payable, Short-Term Investments})}{\text{Current Liabilities}}$$

$$\text{Current Liabilities} = \text{Accruals} + \text{Accounts Payable} + \text{Notes Payable}$$

ACID-TEST RATIO

The Acid Test Ratio considers a **company's current assets** excluding **inventories and prepaid costs** against its **current liabilities**.

FORMULA

The Acid Test Ratio formula is:

$$\text{Acid Test Ratio} = \frac{(\text{Current Assets} - \text{Inventories} - \text{Pre-paid costs})}{\text{Current Liabilities}}$$

$$\text{Current Liabilities} = \text{Accruals} + \text{Accounts Payable} + \text{Notes Payable}$$

CASH RATIO

The Cash Ratio considers a **company's highest liquid assets** that is **cash and liquid stocks** against its **current liabilities**.

FORMULA

The Cash Ratio formula is:

$$\text{Acid Test Ratio} = \frac{(\text{Cash and Cash Equivalents})}{\text{Current Liabilities}}$$

$$\text{Current Liabilities} = \text{Accruals} + \text{Accounts Payable} + \text{Notes Payable}$$

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