3.5 Profitability and liquidity ratio analysis

# Terminology exercise

**Check that you understand the terminology used in this subtopic by dragging the correct word into each space.**

The term refers to quantitative expressions of the relationship between variables in the final accounts. They are used by stakeholders to evaluate the performance of a business.

Various ratios show the profit of a business in relation to other financial data. For example, they might show the ratio of profits to the sales revenue.

The margin indicates the gross profit relative to the sales revenue. The margin shows the profit before interest and tax as a percentage of sales revenue.

The term refers to the ability of a business to convert its current assets into cash. A business's ability to pay short-term liabilities is measured using .

The ratio is a liquidity ratio that calculates the value of a business's short-term assets relative to its short-term liabilities. The is also a liquidity ratio, but it removes stock from the calculation to make the liquidity calculation to make the liquidity assessment more precise.

acid test

profit

liquidity

financial ratios

current

gross profit

profitability

liquidity ratios

Check