

3.5 Profitability and liquidity ratio analysis

Checklist

What you should know

By the end of this subtopic, you should be able to:

- define the following terms: (AO1)
 - profitability ratio
 - liquidity ratio
 - gross profit margin
 - profit margin
 - return on capital employed
 - capital employed
 - liquidity
 - current ratio
 - acid test (quick) ratio
- explain and calculate profitability ratios: gross profit margin, profit margin and return on capital employed (AO2, AO4)
- discuss possible strategies to improve profitability ratios (AO3)
- explain and calculate liquidity ratios: current ratio and acid (quick) test ratio (AO2, AO4)
- discuss possible strategies to improve liquidity ratios (AO3)