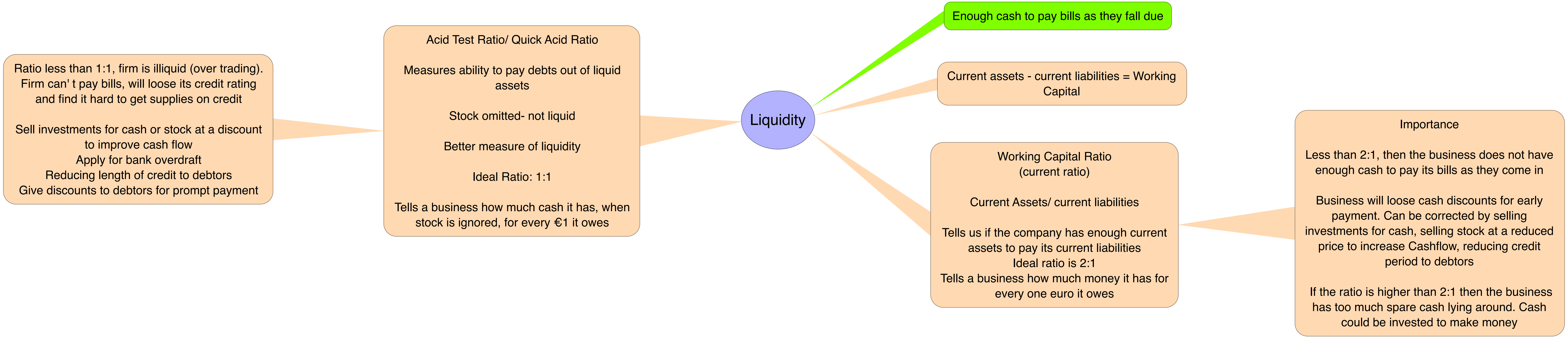
Liquidity
Enough cash to pay bills as they fall due
Current assets - current liabilities = Working Capital
Working Capital Ratio (current ratio)
Current Assets/ current liabilities
Tells us if the company has enough current assets to pay its current liabilities
Ideal ratio is 2:1
Tells a business how much money it has for every one euro it owes
Importance
Less than 2:1, then the business does not have enough cash to pay its bills as they come in
Business will loose cash discounts for early payment. Can be corrected by selling investments for cash, selling stock at a reduced price to increase Cashflow, reducing credit period to debtors
If the ratio is higher than 2:1 then the business has too much spare cash lying around. Cash could be invested to make money
Acid Test Ratio/ Quick Acid Ratio
Measures ability to pay debts out of liquid assets
Stock omitted- not liquid
Better measure of liquidity
Ideal Ratio: 1:1
Tells a business how much cash it has, when stock is ignored, for every €1 it owes
Ratio less than 1:1, firm is illiquid (over trading). Firm can' t pay bills, will loose its credit rating and find it hard to get supplies on credit
Sell investments for cash or stock at a discount to improve cash flow
Apply for bank overdraft
Reducing length of credit to debtors
Give discounts to debtors for prompt payment