

Lesson 11: Working Capital and Liquidity — Keeping Cash Flowing

Part A: Calculate Key Ratios

Use this data: Current Assets = \$90,000 | Current Liabilities = \$45,000 | Inventory = \$20,000 | Cash = \$15,000

Ratio	Formula	Your Answer
Current Ratio	Current Assets ÷ Current Liabilities	
Quick Ratio	(CA – Inventory) ÷ CL	
Cash Ratio	Cash ÷ Current Liabilities	
Working Capital	Current Assets – Current Liabilities	

Part B: Interpret the Results

Based on the ratios you calculated above, is this company in good liquidity health? Explain:

Part C: True or False

Statement	True / False
A current ratio below 1.0 means the company cannot pay short-term debts	
A very high current ratio is always a good sign	
The quick ratio excludes inventory because it may not be easily converted to cash	
Working capital is shown directly on the income statement	