## LIQUIDITY WORKSHEET

QUESTIONS:

1. Calculate the CURRENT RATIO and LIQUID CAPITAL RATIO for the following businesses.
2. What do you conclude about the liquidity of each business?
3. What would you suggest to each business to improve their liquidity position?

Business 1:

Carmel’s Hair and Beauty Salon, as at 14 Feb 202X

|  |  |
| --- | --- |
|  | £ |
| Non-Current Assets  |  |
| Premises | 150 000 |
| Fixture and Fittings | 20 000 |
| **Total Non-Current Assets** | **170 000** |
|  |  |
| Current Assets |  |
| Inventory | 5 000 |
| Receivables | 100 |
| Cash | 1 200 |
| **Total Current Assets** | **6 300** |
|  |  |
| Current Liabilities |  |
| Payables | 1 300 |
| Overdraft | 1 000 |
| Short term Loan | 2 000 |
| **Total Current Liabilities** | **4 300** |
|  |  |
| Working Capital  | 2 000 |
|  |  |
| Long term (Non-Current) Liabilities | 5 000 |
|  |  |
| **NET ASSETS** | **167 000** |
|  |  |
| **Financed By:** |  |
| Owner’s Capital | **120 000** |
| + Reserves | **70 000** |
| - Drawings | **23 000** |
|  |  |
| **CAPITAL EMPLOYED** | **167 000** |

Current = 1.46:1 LCR = 0.30:1

Current is good, LCR shows over-reliance on stock. Not good.

Reduce stock holdings; keep more cash; offer credit to customers to increase sales therefore receivables, therefore cash.

Business 2:

Abra-Kebabra – Kebab Shop, as at 30 April 202X

|  |  |
| --- | --- |
|  | £ |
| Non-Current Assets  |  |
| Premises | 760 000 |
| Fixture and Fittings | 70 000 |
| **Total Non-Current Assets** | **830 000** |
|  |  |
| Current Assets |  |
| Inventory | 6 000 |
| Receivables | 20 000 |
| Cash | 50 000 |
| **Total Current Assets** | **76 000** |
|  |  |
| Current Liabilities |  |
| Payables | 35 000 |
| Short term Loan | 15 000 |
| **Total Current Liabilities** | **50 000** |
|  |  |
| Working Capital  | 26 000 |
|  |  |
| Long term (Non-Current) Liabilities | 200 000 |
|  |  |
| **NET ASSETS** | **656 000** |
|  |  |
| **Financed By:** |  |
| Owner’s Capital | **500 000** |
| + Reserves | **210 000** |
| - Drawings | **54 000** |
|  |  |
| **CAPITAL EMPLOYED** | **167 000** |

Current = 1.52:1 LCR = 1.4:1

Current and LCR both good.

All very favourable. No recommended actions required.

Business 3:

Fancy Frank’s Furniture Emporium, as at 1 December 202X

|  |  |
| --- | --- |
|  | £ |
| Non-Current Assets  |  |
| Premises | 600 000 |
| Fixture and Fittings | 55 000 |
| Machinery | 350 000 |
| **Total Non-Current Assets** | **1 005 000** |
|  |  |
| Current Assets |  |
| Inventory | 425 000 |
| Receivables | 300 000 |
| Cash | 90 000 |
| **Total Current Assets** | **815 000** |
|  |  |
| Current Liabilities |  |
| Payables | 650 000 |
| Overdraft | 95 000 |
| **Total Current Liabilities** | **745 000** |
|  |  |
| Working Capital  | 70 000 |
|  |  |
| Long term (Non-Current) Liabilities | 10 000 |
|  |  |
| **NET ASSETS** | **1 065 000** |
|  |  |
| **Financed By:** |  |
| Owner’s Capital | **800 000** |
| + Reserves | **425 000** |
| - Drawings | **160 000** |
|  |  |
| **CAPITAL EMPLOYED** | **1 065 000** |

Current = 1.09:1 LCR = 0.52:1

Current is poor but not horrendous; LCR is poor.

Keep more current assets as cash; consider getting loans / external finance to bolster cash position; try to reduce stock holdings.