HudsonValley
CREDIT UNION

TEMPLATE

Current Ratio

The Current Ratio measures the liquidity of your company and indicates its ability to pay your short-term bills. It measures your Current Assets (items that can be readily turned into cash such as money in the bank and debtors) versus your Current Liabilities (debts that you need to pay in the near future; e.g., within 12 months).

Current Assets

Current Liabilities

Current Ratio

What this tells you

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How to use this calculator

The Current ratio is one of the most common types of liquidity ratios used to determine a company's financial health. It compares all of the business's Current Assets to all of its Current Liabilities.

Lenders and investors often use this metric to assess a company's financial health.

Sometimes, they will also look at your Quick Ratio or your Cash Ratio. The Quick Ratio measures only the business assets that can be accessed quickly, while the Cash Ratio is a ratio of obligations against cash and cash equivalents.

How it's calculated

We divide Current Assets by Current Liabilties.

Step 1

Open your latest financial statement and look for the Assets and Liabilities figures. If you use accounting software you should be able to generate a current figure similar to the examples below.

These should be in the Balance sheet part of your report. (Don't confuse with long-term assets and liabilities.)

Step 2

Enter your Current Assets and Current Liabilities into the two fields in this calculator. Your Current Ratio will be calculated.

If your ratio is below 1.2, read the solutions checklist in this workbook for ideas on how to improve it.

Balance Sheet
Ajax Pty
As at 30 November

Add Summary

	30 Nov	30 Nov
Assets		
Current Assets		
Accounts Receivable	23,406.55 1	14,345.32 2
Bank Current Account	324.78 1	185.33 2
Bank Saving Account	21,452.21	34,934.44
Total	**45,183.54**	**49,474.09**

Liabilities		
Current Liabilities		
Accounts Payable	4,658.61 1	6,268.51 2
Sales Tax	2,998.56	1,856.49
Credit Card	1,484.80	3,277.41
Total Current Liabilities	**4,658.61**	**11,402.41**

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How to improve your Current Ratio

A steady stream of cash is a key to success, but that's just part of the overall picture. It's also important to maintain a strong current ratio, which indicates the business is able to pay off its Current Debts with its Current Assets.

What is a good ratio?

Over 1.2 = Healthy Current Ratio

A business with a healthy Current Ratio can usually meet its short-term demands and still have enough cash to invest or expand or deal with a cash flow emergency.

Between 1 and 1.2 = Good Current Ratio

Generally, a Current Ratio of 1.0 means that a company's liabilities do not exceed its liquid assets, though this can vary by industry. Numbers below 1.0 may be acceptable in industries where there's a quicker turnover in product and/or payment cycles are shorter.

Below 1 = Low Current Ratio

This could indicate that you're having trouble paying short-term obligations. As such, it may make the business look like a bigger risk for lenders and investors.

Actions you can take to fix a low ratio

1. Sell any assets that you don't need anymore

Look at whether you have any surplus business equipment that you don't need anymore. This could be added to your funds, plus you'll reduce the ongoing cost of maintenance and storage.

2. Improve efficiency

Streamline any labor intensive, non-productive processes such as accounting reporting. For example, instead of manual spreadsheets, think about automated reporting via accounting software.

3. Shorten your cash cycle

Collect money from your customers faster by introducing discounts for prompt payment. You may find that your suppliers can do the same and give you a discount if you pay on time or ahead of the due date. On the flip side, you can consider offering your customers discounts for submitting payments ahead of schedule.

4. Investigate a line of credit

If you find that your cash flow is variable (such as a seasonal cycle) and are at times unable to meet your payment obligations, then a line of credit may be a suitable solution.

5. Assess your borrowing

Look at any finance arrangements you have in place and consider refactoring. For example, if you are constantly at your limit on your credit card and don't pay it in full every month, you may be better off converting this to a longer term loan and paying it off over time. The reverse may also be a solution for you if it would make sense to convert a long-term debt to a short-term loan so you can get rid of it faster.

6. Reduce overhead costs

Overhead costs that could be reduced include insurance, rent, and utilities such as electricity and communications. Try shopping around for a better deal and/or negotiating with your existing supplier. Check if you are on the most appropriate plan for utilities, etc.