



Module III. Business

Entrepreneurial
Finance

Topic 6. Financial Ratios

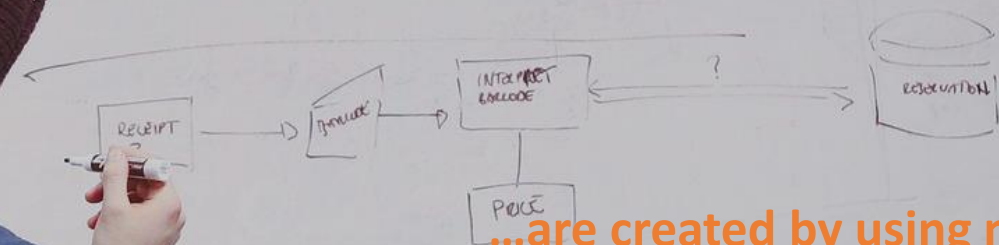
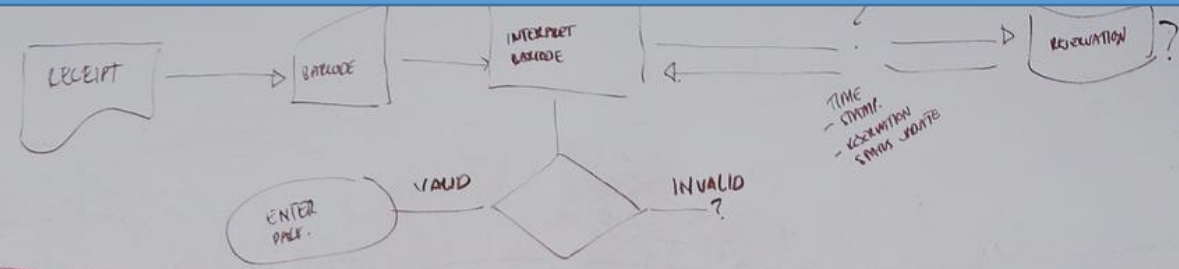
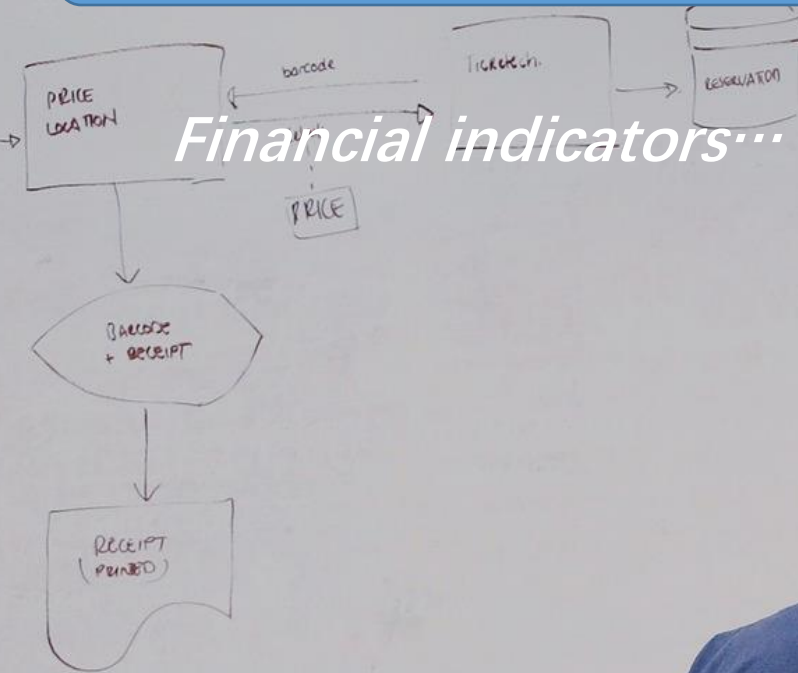
Lesson 3. Liquidity and
Leverage ratios



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Financial indicators...



...are created by using numerical values taken from the financial statements in order to obtain significant information about the company.



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Once the topic is
completed and approved,
learners will be able to...



Apply the formulas and Identify Financial Ratios



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*In this lesson, we
will learn..*

- ✓ What are liquidity and leverage ratios and which formulas accompany them



Liquidity Ratios



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Liquidity ratios

- Current ratio

$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$

- Quick ratio

$\text{Quick ratio} = \frac{\text{Current assets} - \text{inventory and other illiquid assets}}{\text{current liabilities}}$

- Cash ratio

$\text{Cash ratio} = \frac{\text{Cash} + \text{Short-term Investments}}{\text{Current Liabilities}}$



Liquidity

Leverage ratios



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Leverage ratios



- Debt/Equity ratio - It measures the degree to which the company has leveraged itself.

Debt/Equity ratio = Total liabilities/ Stockholders equity



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Conclusions

Ratios are an important assessment tool that business owners and managers can use to quickly assess an organization's performance.



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