

1FP571 Special seminar – Advanced Corporate Finance



EVROPSKÁ UNIE Evropské strukturální a investiční fondy Operační program Výzkum, vývoj a vzdělávání



Short-Term Liquidity

Looks at the firm's ability to pay for obligations due during its operating cycle (wages, purchases of inventory)

Current Ratio, Quick Ratio, Inventory Turnover, ...

Short-Term Liquidity Current Ratio

Current Ratio=Current Assets /
Current Liabilities

Matches the amount of cash and other current assets that will become cash within one year against the obligations that come in the next year. Basic rule of thumb: minimum 1.0

Conservative: Current Ratio > 2.5 Average: Current Ratio $\epsilon < 1.5; 2.5 >$ Aggressive: Current ratio < 1.5

Short-Term Liquidity Quick Ratio (Acid Test)

Quick Ratio(Current Assets – Inventory) /(Acid Test)=Current Liabilities

Quick Assets = Current Assets – Inventory = Cash + Marketable Securities + Accounts Receivable. Includes in the numerator only those current assets that the firm may convert quickly into cash

Conservative strategy: Quick Ratio > 1.5 Average: Current Ratio $\epsilon < 1.0; 1.5 >$ Aggressive: Current ratio < 1.0

Short-Term Liquidity Cash Ratio

Cash Ratio = Cash / Current Liabilities

Coverage of current liabilities by the most liquid assets available to the firm (cash)

Short-Term Liquidity Operating CF to CL Ratio

Operating Cash Flow to Operating Cash Flow / Current Liabilities Ratio = Average Current Liabilities

Another measure of a company short-term liquidity

Its advantage: based on a cash flow AFTER all the funding needs required by the working capital were met (i.e. accounts receivable and inventory) **Short-Term Liquidity** Accounts Receivable

Accounts Receivable Turnover = Sales / Average Accounts Receivable

Days Receivable = Outstanding 365 / Invenory Turnover

Short-Term Liquidity Accounts Payable

- Accounts Payable Purchases / **Average Accounts Payable** Turnover
- Days Payable 365 / _ Outstanding
- **Accounts Payable Turnover**

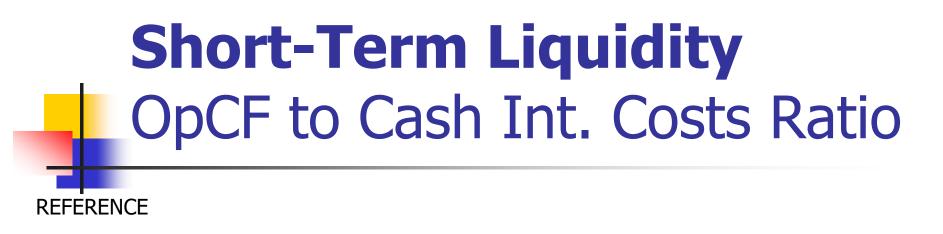
Short-Term Liquidity Inventory

Inventory Turnover = Cost of Goods Sold / Avg Inventories

Days Inventory Outstanding = 365 / Inventory Turnover

Short-Term Liquidity OpCF to Cash Int. Costs Ratio

Operating Cash Flow to Cash Interest Costs Ratio (Cash Flows from Operation + Cash Outflow For Interest + Cash Outflow for Income Taxes) / Cash Outflow for Interest



Wysocki, Peter. Business Analysis Using Financial Statements, Course Number 15.535, Sloan School of Management. Lecture Notes Class 12, MIT OpenCourseWare, <u>https://ocw.mit.edu/courses/15-535-business-analysis-using-financial-statements-spring-</u> 2003/resources/class12/



EVROPSKÁ UNIE Evropské strukturální a investiční fondy Operační program Výzkum, vývoj a vzdělávání



Toto dílo podléhá licenci Creative Commons Uveďte původ – Zachovejte licenci 4.0 Mezinárodní.

