Liquidity Ratio Result	**What it means** ***Measures the ability of business to pay their short term debts***
Current Ratio (CR) - 1.5 – 2.0 Acid Test Ratio (ATR) – over 1.0	Positive result. Company has healthy level of liquidity/working capital and should be able to pay short term debts
CR – less than 1.5 ATR less than 1.0	Negative result. Company has unhealthy level of liquidity/working capital and will have difficulty paying short term debts. Need to increase liquidity or could lead to insolvency.
CR – over 2.0	A ratio higher than 2 suggests that there is too much cash in the business and working capital could be used more effectively elsewhere.
Profitability Ratios	**Measures the profitability of business.** ***Can then be compared against previous years results or competitors results***
Gross Profit Margin (GPM) Profit Margin (PM)	Calculate for every \$ worth of revenue what profit has been made (on average) For example if the GPM is 20% that means for every \$1 of revenue the firm earns \$0.20 of gross profit
How to improve GPM/PM	Use cheaper materials, Cut labour cost (increase productivity or relocate, reduce pay) Raise prices
How to improve PM	Cut overhead costs Reduce promotion cost
Investment Ratios	**Measures the profitability of the business against the capital invested**
What it is used for	The higher the results the better the business is at generating profit from the resources invested.

Current ratio

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

Acid test ratio

$$\text{Acid-test ratio} = \frac{\text{Current assets less stocks}}{\text{Current liabilities}}$$

Gross profit margin - formula

$$\text{Margin (\%)} = \frac{\text{Gross profit}}{\text{Sales Revenue}} \times 100$$

Profit Margin – the formula

$$\text{profit margin} = \frac{\text{t profit (before tax)}}{\text{Sales}} \times 100$$

Return on Capital Employed

$$\text{ROCE (\%)} = \frac{\text{Operating profit}}{\text{Capital employed}} \times 100$$