Current Assets & Liquidity Ratio Calculator

Analyze liquidity structure, assess risk distribution, and evaluate financial health using standardized short-term financial metrics.

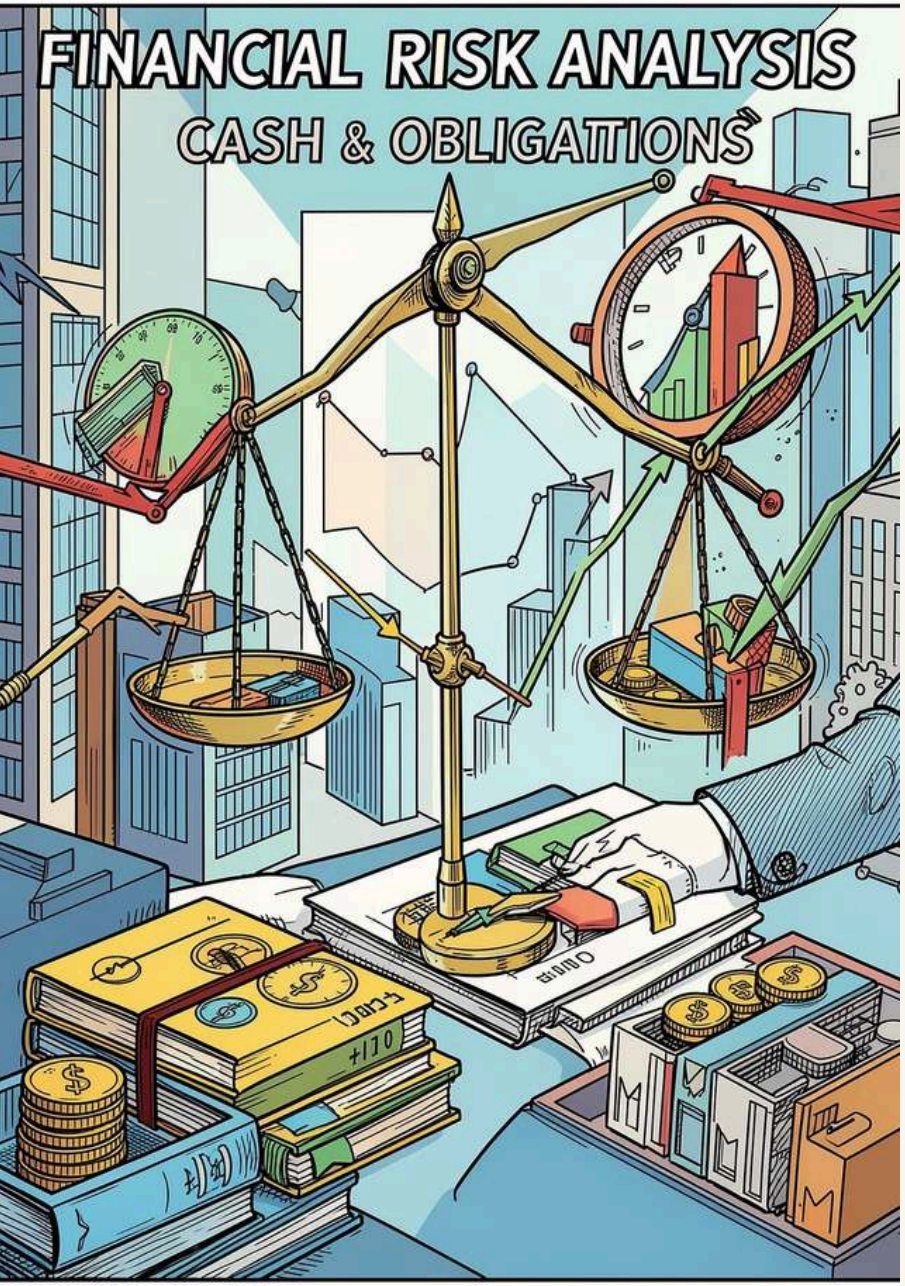
[Link To Free Tool]

What Are Current Assets?

Current assets are short-term economic resources expected to be converted into cash, sold, or consumed within **one year or one operating cycle**, whichever is longer.

- **Cash & Equivalents**
  Currency, checking balances, treasury bills, money market funds
- **Accounts Receivable**
  Money owed by customers for credit purchases
- **Inventory**
  Raw materials, work-in-progress, and finished goods
- **Prepaid Expenses**
  Advance payments for insurance, rent, or licenses
- **Short-termInvestments**
  Marketable securities liquidated within 12 months

[Link To Free Tool]



The Three Core Liquidity Ratios

Current Ratio

Total CurrentAssets÷ Current Liabilities

Target: 1.5 – 2.5

Quick Ratio (Acid Test)

(Cash + STI+Receivables)÷ Current Liabilities

Target: **≥ 1.0**

Cash Ratio

(Cash+STI)÷ Current Liabilities

Tests immediate solvency

[Link To Free Tool]

The Mathematical Architecture

Total Current Assets

$$TCA = CCE + AR + INV + PE + STI$$

Quick Assets

$$QA = CCE + STI + AR$$

Cash Assets

$$CA = CCE + STI$$

Ratio Formulas

$$CR = TCA \div CL$$

$$QR = QA \div CL$$

$$ChR = CA \div CL$$

CCE = Cash & Equivalents · **AR** = Receivables · **INV** = Inventory · **PE** = Prepaid Expenses · **STI** = Short-term Investments · **CL** = Current Liabilities

[Link To Free Tool]

The Liquidity Spectrum & Risk Profiles

⚠️ Insolvency Danger Zone

Current Ratio < 1.0 — not enough assets to cover liabilities; high default risk

📦 Over-Reliance on Inventory

High Current Ratio, Low Quick Ratio — capital trapped in slow-moving stock

💸 Direct Cash Shortage

High Current/Quick, Low Cash Ratio — liquidity depends on collecting receivables

🏦 Capital Inefficiency

Current Ratio > 3.0, Cash Ratio > 1.5 — excess idle cash, poor reinvestment

✅ Optimal Balance

Current Ratio 1.5–2.5, Quick Ratio ≥ 1.0 — healthy, stable liquidity

[Link To Free Tool]

Industry Benchmarks

Targetratiosvarywidelyacrosssectors.Ahigh-volumegrocerychain operates safely at low ratios; a manufacturer needs a larger cushion.

Industry	Current Ratio	Quick Ratio	Cash Ratio	Key Trait
Retail Grocery	1.0–1.3	0.2–0.5	0.1–0.2	Rapid inventory turnover, cash sales
Enterprise SaaS	1.8–2.5	1.7–2.4	0.8–1.5	Negligible inventory, upfront revenue
Heavy Manufacturing	1.5–2.2	0.8–1.2	0.2–0.4	Long production cycles
Construction	1.2–1.6	0.9–1.3	0.1–0.3	Milestone billing dependent
Public Utilities	0.8–1.2	0.6–0.9	0.1–0.2	Stable regulated cash inflows

Link To Free Tool

CASE STUDY A

PeakScale Software Inc.

Balance Sheet Inputs

- Cash & Equivalents: **$50,000**
- Accounts Receivable: **$40,000**
- Inventory: **$0**
- Prepaid Expenses: **$5,000**
- Short-term Investments: **$10,000**
- Current Liabilities: **$60,000**

Liquidity Results

Excellent position — covers all short-term liabilities without relying on inventory.

Current Ratio

1.75

Quick Ratio

1.67

Cash Ratio

1.00

[Link To Free Tool]

CASE STUDY B

Urban Fabricators Ltd.

Balance Sheet Inputs

- Cash & Equivalents: **$15,000**
- Accounts Receivable: **$25,000**
- Inventory: **$120,000**
- Prepaid Expenses: **$5,000**
- Short-term Investments: **$5,000**
- Current Liabilities: **$80,000**

Liquidity Results

⚠ High current ratio masks a weak quick ratio — heavily dependent on selling inventory to pay bills.

Current Ratio
2.13

Quick Ratio
0.56

Cash Ratio
0.25

[Link To Free Tool]

Best Practices for Optimizing Liquidity

OptimizeCashConversion Cycle

Minimize timefrompurchasingmaterialstocollecting customer cash.

Reduce DSO

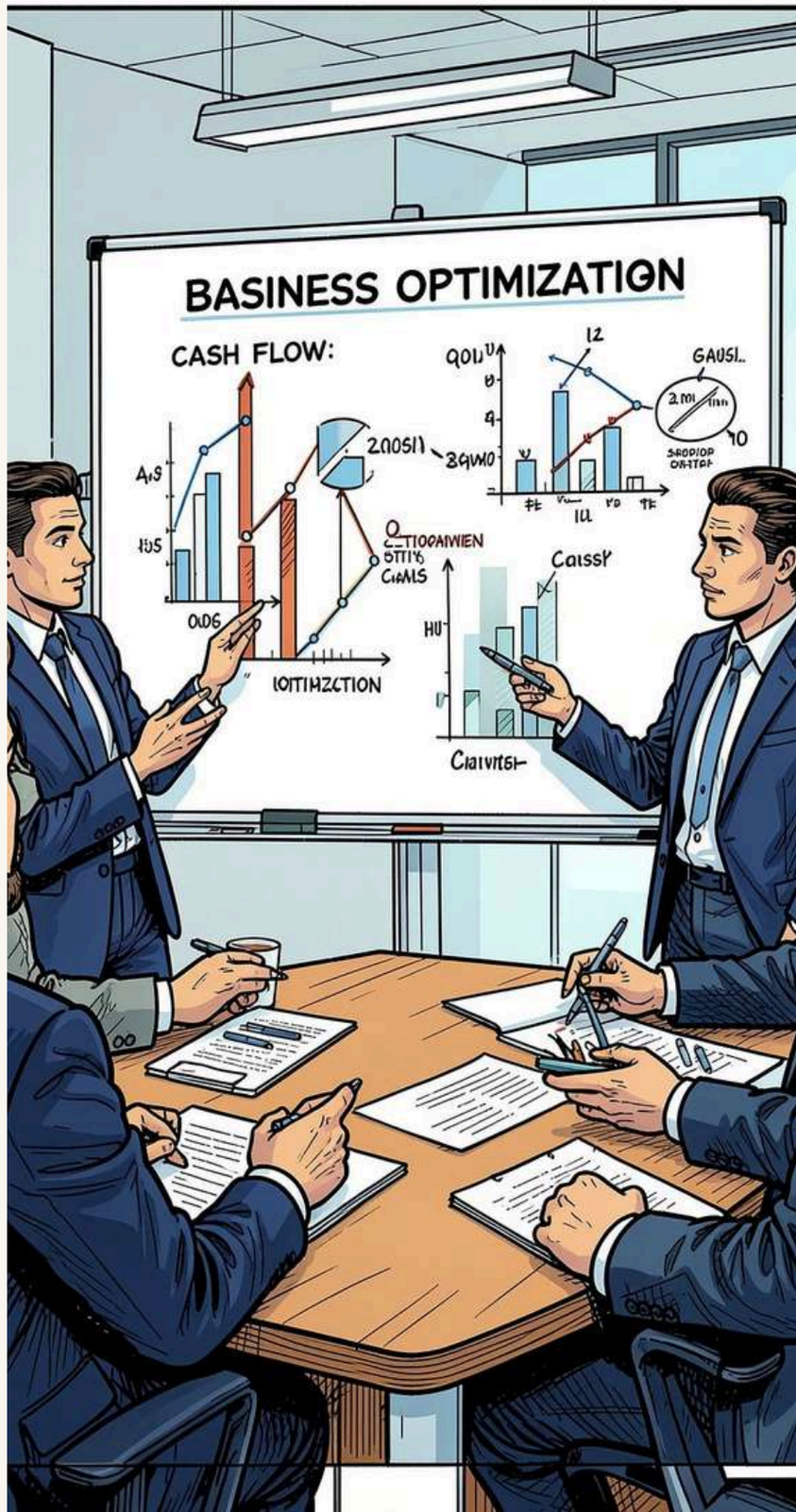
Offer earlypayment discounts, run credit checks, and follow upon overdueinvoices.

Improve Inventory Turnover

Use JITorEOQmodelstoalignstockwith demand and free up cash.

Negotiate Supplier Terms

ExtendDPOtokeepcashlongerandimprove daily liquidity.



[Link To Free Tool]

Key Takeaways & Standards

Remember

1 Liquidity ≠ Solvency

A company can own valuable assets yet face bankruptcy without immediate cash.

2 Use All Three Ratios

Current Ratio alone can mask inventory risk — always check Quick and Cash Ratios.

3 Context Matters

Industry benchmarks vary; compare against sector norms, not universal targets.

Academic Foundations

Calculations and classifications are based on **IAS 1:** Presentation of Financial Statements (IFRS Foundation, 2018).

⚠ ⚠ This tool provides structural estimates only. It does not account for asset write-downs, bad debt provisions, or cash conversion cycle timelines. Always consult a licensed CPA before making strategic capital decisions.

[Link To Free Tool]