Pork Production
HOW-TO
Pork Information Gateway

How to Improve Current Ratio

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Current Ratio

The operations current ratio is obtained by dividing total current assets by the total current liabilities and expressed as that result to one.

Example:

Total current assets of $755248 divided by total current liabilities $359342 =2.10:1.
For every one dollar of current debt the is 2.1 dollars of current assets.

Current ratio measures the extent to which current assets if sold would pay off current liabilities.

- A ratio greater than 1.60 is considered good.
- A ratio less than 1.10 is considered poor.

Working Capital

The difference between total current assets and total current liabilities is called Working Capital. This tells us the operating capital available in the short term from within the business.

Current Ratio and Working Capital are Liquidity Measures

Liquidity is the ability of business to meet financial obligations as they come due.
To have enough cash to pay your operating expenses, family living, taxes and all debt payments on time.

Improving Current Ratio

The operation can improve the current ratio and liquidity by:

- Delaying any capital purchases that would require any cash payments
- Looking to see if any term loans can be re-amortized
- Reducing the personal draw on the business
- Selling any capital assets that are not generating a return to the business (use cash to reduce current debt)