



Marketing Virtual Learning

HS/Accounting 1

Topic: Calculating current ratio

May 12, 2020



Accounting 1: Current Ratio

Objectives:

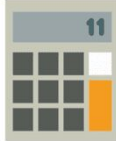


1. Understand what the current ratio is.
2. Figure the current ratio for a company.

Instructions:

1. Read the definition of the ratio on the next slide.
2. Watch the video from the beginning at 2:30 up to the 6:00 minute point and answer the questions on the last slide.

Accounting 1: Current Ratio

The current ratio is a liquidity ratio that measures whether a firm has enough resources to meet its short-term obligations. It compares a firm's current assets to its current liabilities, and is expressed as follows: The current ratio is an indication of a firm's liquidity.


$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$


Video:

<https://youtu.be/KbylzvrS7Us>

Classify each of the following as an asset or a liability for the Brady Brothers partnership:

- A. Brady Brothers owes their attorney \$1,000 in legal fees. **Liability**
- B. Brady Brothers owes the bank \$130,000 due in 4 years. **Liability**
- C. Brady Brothers owns office equipment costing \$50,000. **Asset**
- D. Brady Brothers owns inventory costing \$200,000. **Asset**
- E. Brady Brothers' customers owe it \$75,000. **Asset**
- F. Brady Brothers owes its suppliers \$120,000. **Liability**
- G. Brady Brothers checking account has a balance of \$25,000. **Asset**

Calculate the current ratio for Brady Brothers.

Current assets / Current liabilities = Current ratio

Current assets = Turned to cash with in 1 year



Accounting 1: Current Ratio

Questions:

1. What is the formula for the current ratio?
2. What is a current assets?
3. What is a current liability?
4. What does the 2.48 current ratio mean?
5. What is an ideal current ratio?
 - a. Why?

You can find a google doc with questions for May 11, 12, 13 lessons [here](#)