CONCEPT: RATIOS – QUICK (ACID-TEST) RATIO

● The ***Quick Ratio***, sometimes called the Acid-Test Ratio, is similar to the current ratio, but stricter

- □ The quick ratio is a common ________________ ratio, using only the most liquid assets in the numerator

$$Quick\ (Acid\ Test)\ Ratio = \frac{Cash + ST\ Investments + Net\ Accounts\ Receivable}{Current\ Liabilities}$$

or

$$Quick\ (Acid\ Test)\ Ratio = \frac{Current\ Assets - Inventory - Prepaid\ Expenses}{Current\ Liabilities}$$

Analysis: The quick ratio tells us how many highly liquid assets we have for each dollar of current liabilities

Red Flag: A quick ratio below ________ can be a sign of liquidity problems, but not as alarming as a low current ratio.

EXAMPLE: Super Liquid Company has current assets totaling $450,000 and current liabilities totaling $315,000. Included in current assets are $115,000 of inventory, $35,000 of accounts receivable, and $10,000 of prepaid expenses. Current liabilities include $120,000 in short term debt. Calculate the quick ratio for SLC.

PRACTICE: The following table contains selected financial information for Tougher Question, Inc.

Cash	$45,000		Inventory	$25,000
Machinery	$80,000		Accounts Payable	$30,000
Accounts Receivable	$10,000		Common Stock	$50,000
Short Term Debt	$40,000		Bonds Payable	$100,000
Land	$60,000		Prepaid Expenses	$15,000
Accrued Expenses	$35,000		Retained Earnings	$20,000

Calculate the quick ratio for TQ, Inc.