U4.12 - Print & Cut Flashcards

Cut along the card edges. Each card shows the key term on top and the answer underneath.

CARD 1

What are financial ratios?

Financial ratios are calculations used to analyse a business' financial performance and financial position.

CARD 2

What is the purpose of basic financial ratios?

To analyse financial performance and financial position by comparing figures from financial statements.

CARD 3

Why are financial ratios useful?

They make raw financial data easier to compare over time, against competitors, against industry averages or against targets.

CARD 4

What are the three categories of basic financial ratios?

Liquidity, profitability and stability.

CARD 5

What is the BME Hub shortcut for a strong financial ratio response?

Result, compare, meaning, judge, cause and strategy.

CARD 6

What should an interpret question usually include?

The result, a comparison and the business meaning of the ratio.

CARD 7

What should a comment on question usually include?

The result, comparison, meaning and judgement, with some additional detail.

CARD 8

What should an assess question usually include?

The result, comparison, meaning, judgement, possible cause or strategy, and an overall conclusion.

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CARD 9

What does liquidity measure?

The ability of a business to meet its short-term debts when they fall due.

CARD 10

What is the current ratio formula?

Current assets divided by current liabilities.

CARD 11

What are current assets?

Short-term assets expected to be used, sold or converted into cash within 12 months, such as cash, inventory and accounts receivable.

CARD 12

What are current liabilities?

Short-term debts or obligations expected to be paid within 12 months, such as accounts payable, wages owing, overdrafts and short-term loans.

CARD 13

How is the current ratio usually expressed?

As a ratio, such as 1.5:1 or 2:1, or sometimes as a percentage, such as 150% or 200%.

CARD 14

What does a current ratio above 1:1 usually suggest?

The business has more current assets than current liabilities and may be able to meet short-term debts.

CARD 15

Why is a very high current ratio not always positive?

It may mean the business has excessive cash, inventory or other current assets that are not being used productively.

CARD 16

How can a business improve liquidity?

It can collect money owed faster, increase cash sales, reduce short-term debts, sell unwanted non-current assets, refinance short-term debt into long-term debt or improve stock control.

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CARD 17

What does profitability measure?

The ability of a business to generate profit from sales, resources and owners' investment.

CARD 18

What is the gross profit ratio formula?

Gross profit divided by net sales multiplied by 100.

CARD 19

What does the gross profit ratio show?

How much gross profit is earned from each dollar of net sales after direct costs have been removed.

CARD 20

How can a business improve its gross profit ratio?

It can reduce cost of goods sold, negotiate lower supplier prices, increase selling prices, reduce waste or focus on higher-margin products.

CARD 21

What is the profit ratio formula?

Profit divided by net sales multiplied by 100.

CARD 22

What does the profit ratio show?

How much final profit is kept from each dollar of net sales after expenses are paid.

CARD 23

How can a business improve its profit ratio?

It can reduce expenses, improve pricing, negotiate lower supplier costs, improve productivity or focus on higher-margin products.

CARD 24

What is the expense ratio formula?

Operating expenses divided by net sales multiplied by 100.

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CARD 25

What does the expense ratio show?

The percentage of net sales used to pay operating expenses.

CARD 26

How can a business improve its expense ratio?

It can reduce unnecessary expenses, improve staff productivity, renegotiate contracts, use technology or increase sales without increasing expenses at the same rate.

CARD 27

What is the return on equity ratio formula?

Profit divided by equity at end multiplied by 100.

CARD 28

What does return on equity show?

The return owners receive on their investment in the business.

CARD 29

Why should return on equity usually be higher than bank interest?

Because business ownership involves greater risk, so owners generally expect a higher return than a low-risk investment.

CARD 30

What does stability measure?

The long-term financial strength of a business and its reliance on debt compared with equity.

CARD 31

What is the debt to equity ratio formula?

Total liabilities divided by total equity multiplied by 100.

CARD 32

How should debt to equity be interpreted?

Below 50% usually suggests stronger stability, around 100% suggests a more balanced mix of debt and equity, above 150% suggests higher risk, and above 200% may be particularly risky.

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CARD 33

How can a business improve its debt to equity ratio?

It can repay debt using retained profits, increase equity funding, improve profitability, reduce reliance on loans or sell underused assets to reduce liabilities.