

Current ratio = Current assets divided by **current liabilities**

Calculation of the current ratio from the balance sheet dated _____.			
Current assets	\$ _____	CA	
<i>divided by</i> current liabilities	\$ _____	CL	
= Current ratio	<u> </u> : 1	CR	(CA / CL)

Notes:

The current ratio is also known as the *working capital ratio*.

CA The total amount of the current assets will appear as the first subtotal of the assets on most balance sheets. If the total of the current assets is not shown on the balance sheet, you can calculate the amount by using **Form R1**.

It is critical that only those accounts receivable and inventory items that will turn to cash within 12 months of the balance sheet date be included in the current asset amount.

CL The total amount of the current liabilities will appear as the first subtotal of the liabilities on most balance sheets. If the total of the current liabilities is not shown on the balance sheet, you can calculate the amount by using **Form R1**.

CR The current ratio is an indicator of an organization's ability to meet its current obligations. The larger the current ratio, the better.

See **Filled-In Form R4** for an illustration.

Learn more about financial ratios at www.AccountingCoach.com.