

# Financial Gap Calculation

	% of Sales*		% of Sales*
Cash		Notes Payable	<b>Financial Gap</b>
Accounts Receivable		Accounts Payable	
Inventory		Accruals	
<b>Total Current Assets</b>		<b>Total Current Liabilities</b>	
Equipment		Long-Term Liabilities	
Land/Building		Total Liabilities	
Total Fixed Assets		Net Worth (old Net Worth* = 286,000)	
<b>Total Assets</b>		<b>Total Liabilities &amp; Net Worth</b>	

	Derivation	Definition
<b>SOLVENCY</b> Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	Measures solvency: <i>the company's ability to pay its bills.</i>
<b>LIQUIDITY</b> Quick Ratio (or acid test ratio)	$\frac{\text{Cash} + \text{Accts. Rec.}}{\text{Current Liabilities}}$	Measures liquidity: <i>the company's ability to generate cash to pay bills without relying on the sale of inventories.</i>
<b>LEVERAGE</b> Debt-to-Net Worth	$\frac{\text{Total Liabilities}}{\text{Net Worth}}$	Measures the company's ability to withstand adversity: <i>shows the riskiness of the company</i>