Tavila FAR Ratio Flashcards

FOUR ORIGINAL PROMPTS

Attempt page 1 before viewing page 2. Write balances, formulas and a reason.
Current ratio = current assets / current liabilities. Net working capital = assets - liabilities (current).

1 Start above 1

Independent case A. Current assets are $105,000 and current liabilities $70,000. Cash included in current assets is at least $14,000. Pay $14,000 of current accounts payable using cash. Assume no fees, discounts or other changes. Calculate the current ratio and net working capital before and after payment. Explain the ratio direction.

Attempt / reason: _____

2 Start below 1

Independent case B. Current assets are $49,000 and current liabilities $70,000. Cash included in current assets is at least $14,000. Pay $14,000 of current accounts payable using cash. Assume no fees, discounts or other changes. Calculate the current ratio and net working capital before and after. Does the same payment produce the same ratio direction as card 1?

Attempt / reason: _____

3 Start at 1

Independent case C. Current assets and current liabilities are each $70,000. Cash included in current assets is at least $14,000. Pay $14,000 of current accounts payable using cash. Assume no fees, discounts or other changes. Calculate both measures before and after. State the condition that allows the after-payment current ratio to remain defined.

Attempt / reason: _____

4 Check the denominator boundary

Independent boundary case D. Current assets consist entirely of $70,000 cash; current accounts payable are $70,000. Pay all $70,000 using that cash. Assume no fees, discounts or other changes. Calculate the remaining balances and net working capital. Can the current ratio still be reported as 1.00? Explain without dividing by zero.

Attempt / reason: _____

Original fictional cases. No official score, passing prediction or whole-section coverage claim.

Formula check: OpenStax, Principles of Finance 2e, 6.3 and 19.1. Cases and answers are newly authored.
https://openstax.org/books/principles-finance-2e/pages/6-3-liquidity-ratios
Scope: AICPA Blueprint effective January 2026, FAR11, Area I.F. Version checked October 28, 2026.

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ANSWER CHECKS AND LIMITS

Attempt page 1 before viewing page 2. Write balances, formulas and a reason.
Current ratio = current assets / current liabilities. Net working capital = assets - liabilities (current).

1 Start above 1

Before: $105,000 / $70,000 = 1.50. After: $91,000 / $56,000 = 1.625. The ratio rises. Net working capital stays $35,000: $105,000 - $70,000 = $91,000 - $56,000. Equal dollar reductions preserve the difference, not the ratio. This is arithmetic under the stated facts, not a claim that paying cash improves every aspect of liquidity.

2 Start below 1

Before: $49,000 / $70,000 = 0.70. After: $35,000 / $56,000 = 0.625. The ratio falls, the opposite direction from card 1. Net working capital stays negative $21,000: $49,000 - $70,000 = $35,000 - $56,000. Both cases subtract $14,000 from current assets and current liabilities; their different starting relationships control the direction.

3 Start at 1

Before: $70,000 / $70,000 = 1.00. After: $56,000 / $56,000 = 1.00. Net working capital is $0 before and after. The remaining current-liability denominator is positive. With a positive denominator, subtracting the same payment from equal balances keeps this ratio at 1. Do not extend that conclusion to a zero denominator.

4 Check the denominator boundary

Remaining current assets = $0; remaining current liabilities = $0. Net working capital remains $0. The before-payment current ratio was 1.00, but the after-payment expression is 0 / 0, which is undefined. Do not report 1.00 or 0.00. The earlier direction comparison requires a positive remaining current-liability balance. A zero dollar difference does not establish a defined ratio.

Original fictional cases. No official score, passing prediction or whole-section coverage claim.

Formula check: OpenStax, Principles of Finance 2e, 6.3 and 19.1. Cases and answers are newly authored.
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