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Section - 1

[Question No. 2]

Q.2 What is Profitability Liquidity Trade-off. Explain it?

Ans Profitability - A measure of the amount by which a company's revenue exceeds its relevant expenses. If you are on the line and move towards one, you automatically move away from the other. In other words, there is a trade-off between liquidity and profitability.

The liquidity is the ability of a firm to pay its short term obligation for the continuous operation. The liquidity of a firm is measured primarily by

current ratio and the net working capital whereas the profitability is measured by return on assets and return on equity. The liquidity focused on short term assets which generate low profit and contain low risk. The current ratio is considered acceptable if current assets to current liabilities are equal to one.