e.g.

Jabulani Moloketi has a small business called Moloketi's Marketing Services. He provides a variety of marketing services to clients. At the end of the financial year, his business's financial statements show the following:

Net profit before interest:	R100 000
Interest paid:	R30 000
Net profit after interest:	R70 000
Total capital employed:	R400 000
Owner's equity:	R200 000

In Moloketi's business, the two kinds of profitability will be determined as follows:

$$\textbf{Return on total investment (ROI)} = \frac{\text{net profit before interest} \times 100}{\text{total capital employed}}$$

$$= \frac{\text{R}100\ 000 \times 100}{\text{R}400\ 000}$$

$$= 25\%$$

This means that Moloketi has utilised all the capital (or assets, as the value of both are the same) available to his business in such a way as to show 25c net profit for each R1 of total capital (or total assets) employed.

$$\textbf{Return on equity (ROE)} = \frac{\text{net profit after interest} \times 100}{\text{owner's equity}}$$

$$= \frac{\text{R}70\ 000 \times 100}{\text{R}200\ 000}$$

$$= 35\%$$

This means that Moloketi was able to use outside and own capital in such a way as to show 35c net profit for each R1 of own capital employed.

Liquidity

The liquidity of a business has nothing directly to do with its profitability. Many profitable enterprises go bankrupt because of insurmountable liquidity problems. **Liquidity** refers to the ability of the enterprise to pay its short-term financial commitments continuously and on time. A business has a liquidity crisis if it is unable to pay its creditors when payment is due because of a lack