

CONCEPT: RATIOS – RETURN ON ASSETS (ROA)

- The **Return on Assets (ROA)** measures the income a company earns based on the amount of assets it maintains

- ☐ ROA is a common _____ ratio
- ☐ It is better to earn the same amount of money using less assets than more assets!

$$\text{Return on Assets (ROA)} = \frac{\text{Net Income}}{\text{Average Total Assets}} = \frac{\text{Net Income}}{(\text{BB Total Assets} + \text{EB Total Assets}) \div 2}$$

Note: An average balance is used in many ratios. It is always calculated as _____.
If you are only given one balance (i.e. ending balance), just use that number (no average!)

Note (2): This ratio is generally shown as a _____, make sure to multiply by 100!

Analysis: The ROA tells how much net income the company earns for each dollar of assets owned.

Comparison: Different industries have different reasonable ROA, use **benchmarking**

Red Flag: A negative ROA occurs if the company had a net _____

PRACTICE: XYZ Company had net sales during the period of \$380,000 and net income of \$60,000. If total assets were \$480,000 at the beginning of the period and \$720,000 at the end of the period, what is the company's ROA?

- a) 8%
- b) 10%
- c) 13%
- d) 63%

PRACTICE: A company has income before taxes of \$100,000. Net sales are \$400,000 and gross profit is \$300,000. What is the ROA, assuming the company has a 40% tax rate, and average total assets were \$900,000?

- a) 6.7%
- b) 11.1%
- c) 33.3%
- d) 44.4%