

CONCEPT: RATIOS – DEBT TO EQUITY RATIO

- The **Debt-to-Equity Ratio** helps analyze how a company's assets are financed

☐ The Debt-to-Equity Ratio is a common _____ ratio

☐ Remember that Assets = Liabilities + Equity

- Don't confuse the Debt-to-Equity Ratio with the Debt Ratio (which is _____)

$$\text{Debt to Equity Ratio} = \frac{\text{Total Liabilities}}{\text{Total Equity}}$$

Analysis: The debt to equity ratio notes how many dollars of debt for each dollar of equity used for financing assets.

Comparison: A debt to equity ratio above _____ implies the company relies more on debt than equity to finance. A very high ratio implies that the company is _____ because they depend more on loans than equity financing.

PRACTICE: On its December 31 balance sheet, XYZ Company reported total assets of \$880,000 and total liabilities of \$560,000. What is the company's debt to equity ratio?

- a) .64
- b) .36
- c) .57
- d) 1.75

PRACTICE: At the beginning of the year, ABC Company had total assets of \$600,000, Total Liabilities of \$360,000, and Total Equity of \$240,000. At the end of the year, total assets had increased to \$800,000, Total Liabilities decreased to \$320,000 and Total Equity increased to \$480,000. What was the change in the company's debt to equity ratio during the year?

- a) Increase by 0.83
- b) Increase by 0.20
- c) Decrease by 0.83
- d) Decrease by 0.20
- e) No change in the debt to equity ratio