CONCEPT: RATIOS – TIMES INTEREST EARNED (TIE)

● The ***Times Interest Earned (TIE)*** ratio helps analyze if a company can cover its _________________

□ The TIE ratio is a common _______________ ratio

□ There are different ways to calculate the TIE ratio, we will discuss the two most common calculations

- The calculations produce similar results: Double check how your professor calculates this ratio!

$$TIE = \frac{Operating\ Income}{Interest\ Expense}$$

or

$$TIE = \frac{Net\ Income + Interest\ Expense + Income\ Tax\ Expense}{Interest\ Expense}$$

Analysis: The TIE tells us how many times we could cover our interest expense with our core business income

Comparison: When a company gets a loan, the bank will generally stipulate a level of TIE (i.e. 3x) that must be maintained
______________ TIE implies better solvency because you can cover your interest expense easily

PRACTICE: XYZ Company had Income from Operations of $320,000 and Net Income of $80,000. Interest Expense during the current period was $40,000 and Notes Payable totaled $400,000. What is the company's Times Interest Earned?

a) 2x
b) 6x
c) 8x
d) 10x

PRACTICE: ABC Company had Net Income during the period of $60,000 after Income Taxes of $40,000. Furthermore, the company had outstanding Notes Payable at the beginning and end of the year, respectively, of $250,000 and $350,000. If interest expense was $15,000 during the period, what is the company's TIE ratio?

a) 7.7x
b) 5x
c) 4x
d) 20x