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 ________________)

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

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