CONCEPT: <u>RATIOS – DEBT TO ASSET RATIO</u>

● The ***Debt-to-Asset Ratio (Debt Ratio)*** helps analyze how a company's assets are financed

- ☐ The Debt Ratio is a common _______________ ratio
- ☐ Remember that Assets = Liabilities + Equity

$$Debt\ Ratio = \frac{Total\ Liabilities}{Total\ Assets}$$

Analysis: The debt ratio tells us the proportion of the company's assets that are financed with debt

Comparison: A ________ debt ratio is safer than a ________ one. _____ liabilities → _____ debt payments → Less risk

PRACTICE: On its December 31 balance sheet, XYZ Company reported total assets of $880,000 and total equity of $320,000. What is the company's debt ratio?

a) .64
b) .36
c) .57
d) Not enough information.

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 ratio during the year?

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