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!

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

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%