



Marketing Virtual Learning

HS/Accounting 1

Topic: Calculating debt to equity ratio

May 11, 2020


Accounting 1: Debt to Equity Ratio

Objectives:



1. Understand what the debt to equity ratio is.
2. Figure the debt to equity ratio for a company

Instructions:

1. Read the definition of the ratio on the next slide.
2. Watch the video from the beginning up to the 2:30 point and answer the questions on the last slide.




Debt to
Equity Ratio
Formula

$$= \frac{\text{Total Liabilities}}{\text{Total Equity}}$$


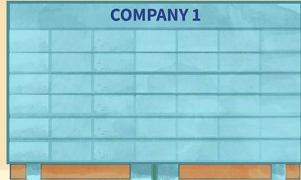
Accounting 1: Debt to Equity Ratio

The debt-to-equity ratio is a financial ratio indicating the relative proportion of shareholders' equity and debt used to finance a company's assets. Closely related to leveraging, the ratio is also known as risk, gearing or leverage.

D/E Formula 
 The debt/equity ratio is a measure of a company's financial leverage.

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

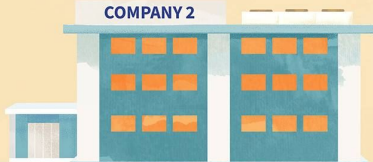
Examples of the Debt to Equity Ratio



COMPANY 1

$$5 \text{ D/E Ratio} = \frac{\$100,000 \text{ (business loans)}}{\$20,000 \text{ (retained earnings)}}$$


A highly leveraged and risky investment.



COMPANY 2

$$.5 \text{ D/E Ratio} = \frac{\$50,000 \text{ (business loans)}}{\$100,000 \text{ (retained earnings)}}$$

A low-risk company and a better investment.

 Investopedia

Accounting 1: Debt to Equity Ratio

Video:

<https://youtu.be/KbylzvrS7Us>

Classify each of the following as an asset or a liability for the Brady Brothers partnership:

- A. Brady Brothers owes their attorney \$1,000 in legal fees. **Liability**
- B. Brady Brothers owes the bank \$130,000 due in 4 years. **Liability**
- C. Brady Brothers owns office equipment costing \$50,000. **Asset**
- D. Brady Brothers owns inventory costing \$200,000. **Asset**
- E. Brady Brothers' customers owe it \$75,000. **Asset**
- F. Brady Brothers owes its suppliers \$120,000. **Liability**
- G. Brady Brothers checking account has a balance of \$25,000. **Asset**

Calculate the current ratio for Brady Brothers.

Current assets / Current liabilities = Current ratio

Current assets = Turned to cash with in 1 year



Accounting 1: Debt to Equity Ratio

Questions:

1. What is the formula for the debt-to-equity ratio?
2. How do you find liabilities if you only have total assets and owner's equity?
3. What does the 2.5 debt-to-equity ratio mean?
4. What is an ideal debt-to-equity ratio?
 - a. Why?

You can find a google doc with questions for May 11, 12, 13 lessons [here](#)