Marketing Virtual Learning

HS/Accounting 1

Topic: Calculating debt to equity ratio

May 11, 2020

Accounting 1: Debt to Equity Ratio

Objectives:

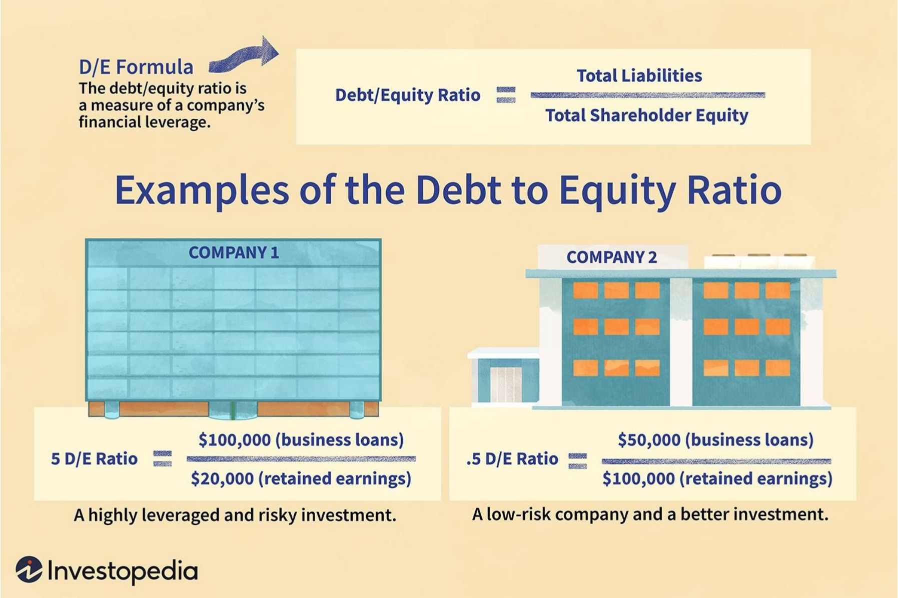
1. Understand what the debt to equity ratio is.
2. Figure the debt to equity ratio for a company

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.

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.



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