

Debt equity ratio narrative essay

[Economics](#), [Financial Markets](#)



It is a ratio that is used to determine the borrowing rate of a company. If the liabilities exceed the capital employed of a company this means that the creditors are more than the shareholders and this can be a problem to the since this can result in the company running into deficits. . It is obtained by dividing the total liability or debt of a company by its owner's equity. Debt to Equity ratio= Total liabilities/owner's equity/net worth.

The industry and business ratios are ratios that are used to determine the performance of various companies that have similar activities and they trade together. Efficiency Ratios These are ratios that are used in determining the ability of a company to meet its short term and long term obligations. The ratios are important in measuring a company's performance in either turning their inventory, sales, assets, accounts, receivable or payables. It includes ratios such as the day's sales outstanding ratio, inventory turnover ratio, and accounts payable to sales (%) Days sales outstanding (DSO)

It is an efficiency ratio that shows the average time taken to turn the receivable into cash and the days in which the accounts receivable have taken to be cleared by the customers. The best days sales outstanding consists of three calculations current receivable, total credits sales for the period analyzed and the number of days in the period analyzed. Regular days sales outstanding = Current Receivable X Number of days Total Credit sales Inventory turnover Ratio: It is a ratio that is used to determine the number of times a company is able to have its stock added or replenished.

It is derived by dividing the total sales of a company by its total inventory.

Inventory turnover Ratio = Net sales/Inventory Accounts payable to sales (%)

It is a ratio that is used to determine the amount of money the suppliers of a

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company use in order to fund the sales of the same company. The ratio is derived by dividing the net sales by the accounts payables; if the ratio is high it means that the company is using its suppliers to fund its operations thus the company is performing successfully.