41 Debt to Equity Ratio 2:1

We assume the ratio to be 10:5
Each transaction will be assumed to be of Rs 1

(a) Journal Entry

Bank A/c Dr..	500000		CA	
To Land		400000	FA	
To Profit and Loss A/c		100000	Equity	Increase

Debt Equity Ratio **10 : 6** = **1.67:1**

Debt to Equity Ratio **Decrease**

(b) Journal Entry

Plant & Machinery A/c Dr..	FA	
To Equity Share Capital A/c	Equity	Increase

Debt Equity Ratio **10 : 6** = **1.67:1**

Debt to Equity Ratio **Decrease**

(c) Journal Entry

13% Debentures A/c Dr..
To Preference Share Capital A/c

CL	
Equity	Increase

Debt Equity Ratio **10 : 6** = **1.67:1**

Debt to Equity Ratio **Decrease**

Note : Since the debentures were redeemable in the current year so these were part of current liabilities

42 Debt to Equity Ratio 0.5:1

We assume the ratio to be 5:10
Each transaction will be assumed to be of Rs 1

(i) Journal Entry

Bank A/c Dr..
To Equity Share Capital A/c

Equity	Increase

Debt Equity Ratio **5 : 11** = **0.45:1**

Debt to Equity Ratio **Decrease**

(ii) Journal Entry

Cash A/c Dr..
To Debtors A/c

Debt to Equity Ratio **No Impact**

(iii) Journal Entry

Debentures A/c Dr..
To Bank A/c

Debt to Equity Ratio **No Impact**

Note : Since the debentures were redeemable so these were part of current liabiities

(iv) Journal Entry

Inventories A/c Dr..
To Sundry Creditors A/c

Debt to Equity Ratio **No Impact**

43 Debt to Equity Ratio 2:1

We assume the ratio to be 10:5
Each transaction will be assumed to be of Rs 1

(i) Journal Entry

Bank A/c Dr..
To Equity Share Capital A/c

Equity	Increase

Debt Equity Ratio **10 : 6** = **1.67:1**

Debt to Equity Ratio **Decrease**

(ii) Journal Entry

Debentures A/c Dr..
To Equity Share Capital A/c

Equity	Increase

Debt Equity Ratio **10 : 6** = **1.67:1**

Debt to Equity Ratio **Decrease**

Note : Since the debentures were redeemable in the current year so these were part of current liabilities

(iii) Journal Entry

Bank A/c Dr..
To Fixed Asset
To Profit and Loss A/c

Equity	Increase

Debt Equity Ratio **10 : 6** = **1.67:1**

Debt to Equity Ratio **Decrease**

(iv) Journal Entry

Fixed Asset A/c Dr..
To Long Term Loan

Debt	Increase

Debt Equity Ratio **11 : 5** = **2.2:1**

Debt to Equity Ratio **Increase**

(v) Journal Entry

Creditors A/c	Dr..		
To Bank			

Debt to Equity Ratio **No Impact**

44 **Step 1**

Debt = Non Current Liabilities

250000

Equity = Share Capital + Reserves and Surplus

1000000 + 240000

= 1240000

Step 2

Debt to Equity Ratio = Debt / Equity

250000 / 1240000

= 0.2:1

45 Total Assets 770000

Long term Debts 400000

Total Assets to Debt Ratio	=	Total Assets	/	Long Term Debts
		770000	/	400000
	=	1.925:1		

46 **Step 1**

Long term Debts	=	Total Debts	-	Current Liabilities
		360000	-	40000
	=	320000		

Step 2

Total Liabilities	=	Shareholder's Funds	+	Total Debts
		160000	+	360000
	=	520000		

Step 3

Total Assets	=	Total Liabilities
		520000

Step 4

Total Assets to Debt Ratio	=	Total Assets	/	Long Term Debts
		520000	/	320000

		=	1.625:1		

47	**Step 1**					
	Total Liabilities	=	Shareholder's Funds		+	Total Debts
			1000000		+	6000000
		=	7000000			
	Step 2					
	Total Assets	=	Total Liabilities			
			7000000			
	Step 3					
	Working Capital	=	Current Assets	-	Current Liabilities	
	So					
	Current Liabilities	=	Current Assets	-	Working Capital	
			2500000	-	500000	
	Current Liabilities	=	2000000			
	Step 4					
	Long Term Debts	=	Total Debts	-	Current Liabilities	
			6000000	-	2000000	
		=	4000000			
	Step 5					
	Total Assets to Debt Ratio	=	Total Assets	/	Long Term Debts	
			7000000	/	4000000	

	=	1.75:1		

48 **Step 1**

Capital Employed	=	Shareholders Funds	+	Long Term Debts

So if we add current liabilities also to capital employed then we will get total liabilities which in turn is equal to total assets

Total Liabilities	=	Capital Employed	+	Current Liabilities
		1500000	+	500000
	=	2000000		

Step 2

Total Assets	=	Total Liabilities
		2000000

Step 3

Long Term Debts	=	Total Debt	-	Current Liabilities
		1500000		500000
	=	1000000		

Step 4

Total Assets to Debt Ratio	=	Total Assets	/	Long Term Debts
		2000000	/	1000000
	=	2:1		

49	**Step 1**								
	Total Assets	=	1500000						
	Step 2								
	Current Liabilities	=	Creditors	+	Bills Payable	+	Bank Overdraft	+	Outstanding Expenses
			90000	+	60000	+	50000	+	20000
		=	220000						
	Step 3								
	Long Term Debts	=	Total Debts	-	Current Liabilities				
			1200000	-	220000				
		=	980000						
	Step 4								
	Total Assets to Debt Ratio	=	Total Assets	/	Long Term Debts				
			1500000	/	980000				
		=	1.53:1						
50	**Step 1**								

Total Liabilities	=	Total Debt	+	Shareholders Funds
		1200000	+	200000
	=	1400000		

Note : Reserves and Surplus is already part of Shareholders funds so not considered separately

Step 2

Total Assets	=	Total Liabilities
		1400000

Step 3

Working Capital	=	Current Assets	-	Current Liabilities
So				
Current Liabilities	=	Current Assets	-	Working Capital
		500000	-	100000
Current Liabilities	=	400000		

Step 4

Long Term Debts	=	Total Debts	-	Current Liabilities
		1200000	-	400000
	=	800000		

Step 5

Total Assets to Debt Ratio	=	Total Assets	/	Long Term Debts
		1400000	/	800000
	=	1.75:1		