The **debt ratio** indicates the extent to which a company has financed the operations of its business through loans (versus the amount of money the company has received from owner investments).

The debt ratio is calculated by dividing the total liabilities by the total assets, both of which are found on the balance sheet.

```
Total liabilities ÷ Total assets = Debt ratio
```

A **higher** debt ratio means that the financing for a given company relies more on borrowed money. In comparison, a company with a **lower** debt ratio would have less funding from debt and more funding from other sources.

While a “good” or “bad” debt ratio all depends on the context of the company, generally a debt ratio between 0.3 and 0.6 is considered favorable. A company with a debt ratio less than 0.3 may not be making smart strategic decisions about borrowing money, while a debt ratio over 0.6 may be considered too risky for some investors. Most large companies have debt ratios between 0.5 and 0.6.

According to the balance sheet, Yummy Stuff Co. had total liabilities of $24,308 and total assets of $35,438 in 2022.

$24,308 ÷ $35,438 = 0.6859, so Yummy Stuff Co. has a debt ratio of 0.69. That’s a little high!