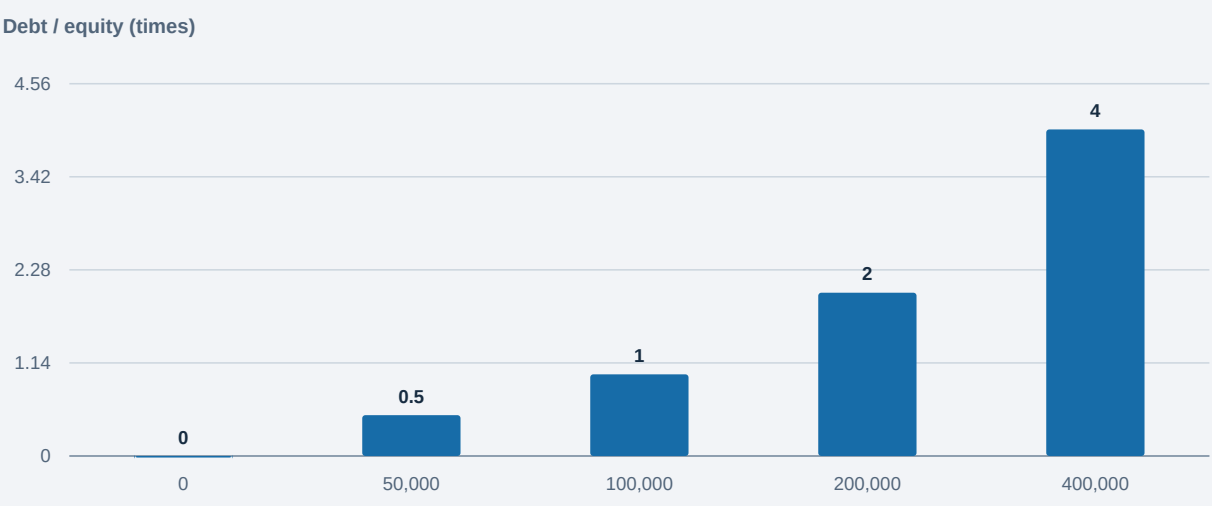
Debt relative to book equity

Fundamental ratios | Original synthetic example | Edition 2026-11-26

A debt-to-equity ratio compares a defined debt balance with a defined equity balance. Whether debt includes leases, all liabilities or only interest-bearing borrowing must be stated.

FORMULA Debt/equity = defined debt / book equity

SCENARIO 01: Book equity 100000; debt means interest-bearing borrowing



WORKED EXAMPLE

Defined debt 100,000 divided by equity 100000 gives 1. Other debt definitions can differ.

COMMON MISTAKE

Comparing ratios whose debt definitions differ makes the apparent leverage comparison unreliable.

BEFORE YOU USE THE CALCULATION

1. State the debt definition.
2. Use the same reporting date.
3. Treat nonpositive equity as a special case.

COMPARE TWO MORE INPUT SETS

Scenario 05: Book equity 200000; debt means interest-bearing borrowing. Defined debt 100,000 divided by equity 200000 gives 0.5. Other debt definitions can differ.

Scenario 10: Book equity 325000; debt means interest-bearing borrowing. Defined debt 100,000 divided by equity 325000 gives 0.3077. Other debt definitions can differ.

Synthetic values are not historical market data. Educational material; trading can result in substantial losses.