

Student: Adam Clomick
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Instructor: Timmothy Posey
Course: FINC400 D002 Fall 14
Book: Keown/Martin/Petty, Foundations of Finance, 8e

Assignment: Week 2 Homework

Problem 4 (Financing decisions) Ellie's Electronics Incorporated has total assets of \$65 million and total debt of \$37 million. The company also has 15 (similar to). operating income of \$20 million with interest expenses of \$7 million.

7.

- What is Ellie's debt ratio?
 - What is Ellie's times interest earned?
 - Based on the information above, would you recommend to Ellie's management that the firm is in a strong enough position to assume more debt and increase interest expense to \$8 million?
- a. Ellie's debt ratio is %. (Round to two decimal places.)
- b. Ellie's times interest earned ratio is X. (Round to two decimal places.)
- c. Based on the information above, would you recommend to Ellie's management that the firm is in a strong enough position to assume more debt and increase interest expense by \$8 million? (Select the best choice below.)
- A. No. Ellie should not take on more debt because of high debt ratio and low times interest earned ratio.
- B. Yes. Ellie can take on more debt because of low debt ratio and high times interest earned ratio.