

**FN221 : Assignment 4**

1.

<b>Steve and Mary Balance Sheet</b>	
<i>as at 30 March 2014</i>	
<b>Assets</b>	
House	150,000
Monetary assets	5,000
Cars	20,000
Furniture	10,000
<b>Total Assets</b>	<b>185,000</b>
<b>Liabilities</b>	
House mortgage	100,000
College loans	10,000
Car loans	20,000
Credit card bills	1,150
<b>Total Liabilities</b>	<b>131,150</b>
<b>Net Worth</b>	<b>53,850</b>

Overall, the financial situation is being ok since the net worth of the family is positive. The majority value is the value of the house, which is illiquidity asset.

However, their monetary asset or current asset is not high. Therefore, they should increase the quick asset .so they can handle with the emergency case or unexpected expense that might occur in the future.

2.

<b>Steve and Mary Income Statement</b>	
<i>as at 31 Dec 2014</i>	
<b>Income</b>	
Salaries	50,000
Tax	(7,500)
Income after tax	42,500
Charity	(6,000)
Paying yourself	(5,000)
<b>Total Income</b>	<b>31,500</b>
<b>Expense</b>	
Mortgage expense	7,730
Car loan expense	7,410
College loan expense	1,160
Utilities and Property Tax	2,270
Food expense	6,000
Insurance expense	1,500
Other expense	5,430
<b>Total Expense</b>	<b>31,500</b>
<b>Net Income</b>	<b>-</b>

According to the provided information, this family is seem to be ok since they don't have negative net income.

In addition, they are more secure because they bought the insurance. So they can get the compensation when they sick or not be able to work for some period.

However, the only source of income is their salaries and it is risky if some of them get lay-off or cannot work.

Therefore, they might find other source of income. For instance, a return from investing in bonds, mutual funds, stocks etc.

### 3. Liquidity Ratios

Current ratio = current assets / current liabilities

$$= 5,000/1,150 = 4.35$$

Means that they have ability to pay off short-term debt for another 4 months. In my opinion, they should increase their current ratio to around 6-7 by increase the current asset

Month's Living Expense Covered Ratio = Monetary assets / (annual living expenses/12)

$$= 5,000/(31,500/12) = 1.9$$

They have not much liquidity because they could only cover the live expense for approximately 2 months. They should cut their expense or increase the monetary asset.

### Debt Ratios

Debt ratio = total liabilities / total assets

$$= 131,500/185,000 = 0.71$$

The family's debt is relatively high. However, this level is still ok since the total liabilities is below the total asset.

Long-term debt coverage ratio = income available for living expenses (wages - taxes or W-T) / long-term debt payments (debt you would not pay off in 12 months)

$$= (50,000 - 7,500)/(7,730 + 7,410 + 1,160) = 2.6$$

### Savings Ratios

Savings ratio = income available for savings and investment / income available for living expenses

$$= 5,000/42,500 = .118$$

Gross savings ratio = income available for savings and investment / gross salary

$$= 5,000/50,000 = .10$$

In my perspective the their saving level is relatively good. Nevertheless, it also depend on the purpose of their saving. Therefore, they should have the goal of saving ,so they can know the fix amount they need to save in each month and it will help them achieve the objective easier.