

Assignment 4: Answer Sheet

Question1

Steve and Mary Jo's Balance Sheet

Assets		Liabilities	
House	\$150,000	Mortgage	\$100,000
Monetary asset	5,000	College loans	10,000
Cars	20,000	Cars loan	20,000
Furniture	10,000	Bills	1,150
Total Asset	\$185,000	Total Liabilities	\$131,150

Net worth =Assets - Liabilities
=185,000-131,150 = \$53,850

In overall looks every things looks fine since net worth is positive. However, most of their asset value come from house value that are still under mortgage term. They should increase their current asset (asset that can turn into cash quickly) just in case of emergency.

Question2

Steve and Mary Jo's Income Statement

Annual Income		Annual Expense	
Yearly Income	\$50,000	Mortgage	\$7,730
Taxes	(7,500)	Car Loan	7,410
Income after taxes	\$42,500	College Loan	1,160
Charity Contribution	(6,000)	Utilities and Property Tax	2,270
Payment to themselves	(5,000)	Food Expense	6,000
Total Income	\$31,500	Insurance Expense	1,500
		Other Expense	5,430
			31,500

$$\text{Net Income} = 31,500 - 31,500 = 0$$

With net income equal to zero they are not doing so bad. They can claim from their insurance in case of emergency. However, the only source of family income is from their salary. Therefore, they are quite in risk since economy may slowdown and company may start laying off people which might include them. I might suggest them to start looking for other source of income or to invest in some funds for their future.

Question3

$$\begin{aligned}\text{Liquidity Ratio} &= \text{Current Assets/Current Liabilities} \\ &= 5,000/1,150 \\ &= 4.3478\end{aligned}$$

Liquidity ratio of 4.3478 means that their current asset can cover their current liabilities by 4 times.

$$\begin{aligned}\text{Month's Living Expense Covered Ratio} &= \text{Monetary assets} / (\text{annual living expenses}/12) \\ &= 5,000/(31,500/12) \\ &= 5,000/2,625 \\ &= 1.905\end{aligned}$$

$$\begin{aligned}\text{Debt ratio} &= \text{total liabilities} / \text{total assets} \\ &= 131,500/185,000 \\ &= 0.7108\end{aligned}$$

Debt ratio indicate that 71.08% of their asset are financed by debt. Which means they are highly leverage.

$$\begin{aligned}\text{Long-term debt coverage ratio} &= \text{income available for living expenses (wages - taxes or W-T)} / \\ &\text{long-term debt payments (debt you would not pay off in 12 months)} \\ &= (50,000 - 7,500)/(7,730 + 7,410 + 1,160) \\ &= 42,500/16,300 \\ &= 2.6074\end{aligned}$$

$$\begin{aligned}\text{Savings ratio} &= \text{income available for savings and investment} / \text{income available for living} \\ &\text{expenses} \\ &= 5000/42500 \\ &= 0.1176\end{aligned}$$

$$\begin{aligned}\text{Gross savings ratio} &= \text{income available for savings and investment} / \text{gross salary} \\ &= 5000/50,000 \\ &= 0.10\end{aligned}$$

Suggest that they should increase their monetary assets by saving more. They can reduce some of expense to save more. However, they are carrying too much debt, they may reduce some debt by buying cheaper cars.

- * Sorry for my late submit of homework na ka, my plane just landed in Bangkok an hour ago.
- * anyway that is not an excuse just fyi.