

Questions

1. A personal balance sheet is given in the Table 1 below:

Table 1. Personal balance sheet

Liquid assets	\$3,870.00
Investment assets	\$8,340.00
Household assets	\$87,890.00
Total assets	\$100,100.00
Current liabilities	\$2,670.00
Long-term liabilities	\$76,230.00
Total liabilities	\$78,900.00
Net worth	\$21,200.00

2. Debt ratio is:

$$\text{Debt ratio} = \frac{\text{Liabilities}}{\text{Net worth} - \text{Liabilities}} = \frac{\$7,800}{\$58,000 - \$7,800} = 15.5\%$$

Current ratio is:

$$\text{Current ratio} = \frac{\text{Liquid assets}}{\text{Current liabilities}} = \frac{\$4,600}{\$1,300} = 3.54$$

Debt-payments ratio is:

$$\text{Debt} - \text{payment ratio} = \frac{\text{Monthly credit payments}}{\text{Gross income}} = \frac{\$640}{\$2,850} = 0.22$$

Savings ratio is:

$$\text{Savings ratio} = \frac{\text{Monthly savings}}{\text{Take} - \text{home pay}} = \frac{\$130}{\$2,575} = 0.05$$

3. Since the net worth of Fram family is \$340,000, the value of family's total assets is:

$$\text{Total assets} = \text{Total liabilities} + \text{Net worth} = \$128,000 + \$340,000 = \$468,000$$

Debt ratio is calculated as follows:

$$\text{Debt ratio} = \frac{\text{Total liabilities}}{\text{Total assets}} = \frac{\$128,000}{\$468,000} = 0.27$$

4. Total liquid assets are:

Total liquid assets

= Money market account + Checking account + Credit card balance

= \$2,600 + \$780 = \$3,380

Total current liabilities are:

Total current liabilities = Medical bills + Credit card balance = \$262 + \$489 = \$751

5. Total assets are:

Total assets = Cash in checking account + Savings account balance

+ Current value of automobile + Household possessions

+ Video equipment + Lunches – parking at work + Personal computer

+ Value of stock investment

= \$450 + \$1,890 + \$8,800 + \$3,400 + \$2,350 + \$180 + \$1,200 + \$860

= \$19,130

Total liabilities are:

Total liabilities = Balance of educational loan + Credit card balance = \$2,160 + \$235

= \$2,395

Net worth is:

Net worth = Total assets – Total liabilities = \$19,130 – \$2,395 = \$16,735

Total cash inflows are:

Total cash inflows = Monthly take – home salary + Donations = \$2,185 + \$160

= \$2,345

Total cash outflows are:

Total cash outflows

= Rent for the month + Spending for food

+ Telephone bill paid for month + Loan payment + Auto insurance

+ Payment for electricity + Clothing purchase + Restaurant spending

= \$650 + \$345 + \$65 + \$80 + \$230 + \$90 + \$110 + \$130 = \$1,700