



## finance in your life

### Analyzing Personal Financial Progress

"Why do I never seem to have enough money at the end of the month?"

"How will I ever have the money to purchase a house?"

"How can I be sure I will have enough savings to retire?"

Each of these questions reflects the importance of personal financial planning. They demonstrate on a personal level the same types of financial issues facing businesses. Being able to pay bills at the end of the month is a matter of cash flow. Financing a major purchase such as a home requires taking on long-term debt. Planning for retirement requires increasing your personal net worth. Just as executives carefully study reports to plan for growth and profitability, individuals need to maintain financial records and develop expertise in financial analysis.

Financial ratios can be an important personal financial planning tool. In order to use financial ratios you will need to prepare a balance sheet and an income statement. The following ratios provide useful information on your current status and guidance on what you can do to improve your personal financial health.

- Do you have enough cash and liquid assets to pay immediate expenses?

**Current Ratio = Current Assets ÷ Current Liabilities**

- What proportion of your assets is really owned by your creditors?

**Debt to Total Assets Ratio = Total Liabilities ÷ Total Assets**

- How much debt do you own compared to your net worth?

**Debt to Equity Ratio = Total Liabilities ÷ Owner's Equity**

- How does your income compare to the value of your assets and your personal net worth?

**Net Return on Assets Ratio = Net Profit (income) ÷ Assets**

**Net Return on Equity Ratio = Net Profit (income) ÷ Owner's Equity**

### Think Critically

1. What changes in the relationship of assets, liabilities, and owner's equity would indicate improving personal financial health?
2. How could an individual begin to make those financial changes?

Answer: \_\_\_\_\_