

Lesson 4 Study Guide: Personal Financial Statements

Statement of Financial Position (Balance Sheet)

Assets:

- Cash/Cash Equivalents:
- Investments:
- Personal Use Assets

Liabilities and Net Worth:

- Current Liabilities:
- Long-Term Liabilities:
- Net Worth:

Income and Expense Statement (Statement of Cash Flows)

Discretionary Cash Flow = Income – Savings – Expenses

- Income:
- Savings:
- Expenses:

Statement of Cash Flows

Changes in balance sheets are caused by two things:

-
-

Key components:

- Operations:
- Investment activities:
- Financing activities:
- Beginning cash and cash equivalents:
- Ending cash and cash equivalents:
- Net increase (decrease) in cash flows:

Statement of Changes in Net Worth

-
-

Ratios

Summary of Ratios		
Liquidity Ratios		Target
Emergency Fund Ratio	$\frac{\text{Liquid Assets}}{\text{Monthly Nondiscretionary Expenses}}$	3-6
Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	1-2
Debt Ratios		Target
Total Debt to Net Worth	$\frac{\text{Total Debt}}{\text{Net Worth}}$	Varies
Long-Term Debt to Net Worth	$\frac{\text{Long-Term Debt}}{\text{Net Worth}}$	Varies
Total Debt to Total Assets	$\frac{\text{Total Debt}}{\text{Total Assets}}$	Varies
Long-Term Debt to Total Assets	$\frac{\text{Long-Term Debt}}{\text{Total Assets}}$	Varies
Performance Ratios		Target
Savings Ratio	$\frac{\text{Annual Savings}}{\text{Annual Gross Income}}$	≤10%
Discretionary Cash Flow + Savings to Gross Income	$\frac{\text{Annual Savings} + \text{Discretionary Income}}{\text{Annual Gross Income}}$	≥10%
Income on Investments	$\frac{\text{Income from investments}}{\text{Average invested assets}}$	Varies
Rate of Return on Investments	$\frac{\text{EI} - \text{BI} - \text{Savings} - \text{Gifts}}{\text{Average invested assets}}$	9-12%
Investment Assets to Gross Income	$\frac{\text{Total Investment Assets}}{\text{Annual Gross Income}}$	Varies