

Example 3

Rosalie's financial information is listed below.

- Her home is assessed at \$112 000 with a mortgage balance of \$72 500. $112\ 000 - 72\ 500 = 39\ 500$
- Her car is valued at \$13 600, with an outstanding balance of \$6 400. $13\ 600 - 6\ 400 = 7\ 200$
- She has \$1 900 in her savings account, \$3 800 in a CSB, and \$1 450 in mutual funds. $1\ 900 + 3\ 800 + 1\ 450 = 7\ 150$
- Her life Insurance policy has a cash surrender value of \$5 300.
- The value of her RRSPs is \$16 100 and her pension plan is worth \$45 000. $16\ 100 + 45\ 000 = 61\ 100$
- She has an outstanding balance of \$2 554 on her credit card and owes \$3 650 on other loans. $2\ 550$

Determine Rosalie's net worth and her debt-equity ratio.

| <u>Assets</u> | |
|---------------------|------------------|
| 1. House = | \$112 000 |
| 2. Car = | \$13 600 |
| 3. Investments = | \$7 150 |
| 4. Life Insurance = | \$5 300 |
| 5. RRSP = | \$16 100 |
| 6. Pension Plan = | \$45 000 |
| <u>TOTAL =</u> | <u>\$199 150</u> |

| <u>Liabilities</u> | |
|-----------------------|-----------------|
| 1. Mortgage = | \$72 500 |
| 2. Car loan = | \$6 400 |
| 3. Credit card debt = | \$2 554 |
| 4. Other loans = | \$3 650 |
| <u>TOTAL =</u> | <u>\$85 104</u> |

$$\text{Networth} = \underline{\underline{114\ 046}}$$

$$\begin{aligned} * \text{NET WORTH} &= \text{TOTAL ASSETS} - \text{TOTAL LIABILITIES} \\ &= \$199\ 150 - \$85\ 104 \\ &= \underline{\underline{\$114\ 046}} \end{aligned}$$

$$* \text{DER} = \frac{\text{TOTAL LIABILITIES} - \text{mortgage}}{\text{Net worth}} \times 100\%$$

$$\text{DER} = \frac{85\ 104 - 72\ 500}{114\ 046} \times 100\%$$

$$\text{DER} = \underline{\underline{11.05\%}}$$