Financial Ratios

Financial Ratios are numerical yardsticks used to give a concise picture of your current financial situation. The ratios help you understand your current level of liquidity, debt & savings. It enables you to assess strengths & weaknesses in your present finances. The financial ratios are conventionally categorised into five main areas:

Total Debt Servicing Ratio — $\frac{\$28,800.00}{\$96,000.00}$ **30%** — **OK**

According to TDSR framework, all debt servicing should not be more than 60% of income. It is recommended to manage it to be below 35% for prudent financial management

Liquidity Ratio — $\frac{\$5,000.00}{\$7,700.00}$ **0.6** — **REVIEW**

The ratio captures the number of months you can sustain yourself if all existing sources of income are lost temporarily. A good guide is 3 to 6 months. Too much would mean there is excess idle funds that could be invested for better returns

Liquid Asset to Net Worth Ratio — $\frac{\$5,000.00}{\$275,000.00}$ **2%** — **REVIEW**

This ratio provides an indication of the amount of person's net worth is in cash or cash equivalents. A minimum ratio of 15% is considered prudent to meet short term emergencies

Savings Ratio — $\frac{\$3,600.00}{\$96,000.00}$ **4%** — **REVIEW**

'Savings' in this instance is the cash surplus resulting from your cash flow
It is a ratio to measure your ability to save. It is recommended that you save at least 10% of your gross salary

Debt to Asset Ratio — $\frac{\$380,000.00}{\$655,000.00}$ **58%** — **REVIEW**

The debt-to-asset ratio is a broader measure of liquidity. Specifically, the debt to asset ratio can be used to measure a person's solvency or ability to pay debts. Generally, a ratio of 50% or less is considered safe.