

Analysis One Couple's Financial Position 1

ANALYSIS ONE COUPLE'S FINANCIAL POSITION

Name:

Grade Course:

Tutor's Name:

Date

SAMPLE
Primeessaywritings.com

Analysis One Couple's Financial Position

Introduction

This case study aims at analyse a couple's financial position by dealing with three major areas in the case study. The first part is identifying the problem the couple is having and/or will have in the near future. The second part is identifying the necessary steps the couple needs to take to better their situation, and explain why those steps are important. The last part illustrates the expected outcomes from taking those steps.

Problem the Couple Have Now and/or Will Have In The Near Future

Identifying the problem that the couple is having or will have in the near future requires a preparation of the couple's budget. Based on the couple's budget, the couple's monthly salary is \$30,650, with joint account interest of \$20 at an interest rate of 2.5% and interest on Jack's deposit interest of \$31.25 at an interest rate of 2.5%. The couple's dividend share is \$902 at a rate of 4.5%. In total, the couple's total monthly income is \$31,603.25.

The couple's outgoing per month were spent on mortgage, school fees, contributions, interests on cars, interests on home theatre, C/Card, and household expenses, each costing - \$9,733, -\$2,125, -\$11,860, -\$2040, -\$700, -\$997.5, and -\$4,600 respectively. The couple's total expenses per month are -\$32,055. As a result the couple's deficit per month is -\$452.25.

Based budget above, the biggest problem the family is facing and might continue facing in future is the financial problems as the couple's monthly expenditures are slightly higher than its monthly income. However, interest and dividends should not be used by the couple when calculating their monthly income. This is based on the fact that interests and dividends will only come into play when calculating their tax returns, which is an endeavour, carried out at the end of the year. This implies that the couple's financial cash flow is in a mess, as they

depends on the interest and dividends as monthly incomes which only come at the end of the year, hence straining more.

Moreover, the fully franchised shares might imply that the couple will not get their dividends in form of cash, implying that they will not get this cash even though they have included it in their budget. From these facts, it is clear that the couple has a problem in its cash flows, but doing well in terms of assets. The cash flow problem might get worse in the near future when Jack's father will be fully dependant on them, hence straining the budget further, putting in mind that the budget is already constrained.

Necessary Steps the Couple Need To Take To Improve and Better Their Situation

In the process of making the situation better, the couple needs to settle their car loans personal loans and mortgage loans as they are making them incur lots of monthly expenses in form of interests. As a result, they should set a goal of settling these loans as soon as possible. Moreover, they can set a goal of investing in the new business opportunity that family friend has proposed.

In total, the couple has \$6,699 per month in paying outstanding mortgage costs, and a total of \$72,500 on personal loans and debts as a result; the couple should try as much as it could to reduce this debt as quickly as possible. As a result, the couple should analyze its household financial situation from which they can identify any strengths, opportunity and threats that can help them settle its debts. Setting attainable goals is very important as it will help the couple in coming together and review their transactions on their expenses weekly, monthly, quarterly or yearly. This is very important in ensuring proper money management patterns in the family (Vargo 2013). Nevertheless, the step will identify either categories or areas that either one of them, or both is more than expected, and if their spending matches the

desired future of the couple. This can be illustrated by Ann, whose car is more expensive, hence spending more monthly on car, other than saving for other things, as well as her intention of converting \$25,000 bonus from 10,500 industry funds invested in balanced fund. Nevertheless, they should consider if the amount they are paying for inform of school fees is sustainable, especially when the other two non-schooling kids starts attending school. Moreover the couple needs to the instances of hidden expenditures amongst themselves. This step of analyzing the financial position will also identify the couple's specific, measurable, attainable, relevant and time-bound goals, including whether they should invest in the new company as proposed by their friend, depending on its profitability, and where the money will come from.

The couple has \$10,000 on their common saving account, and Jack has \$15,000 as a deposit yet they are in a deep debt. As a result, there is no need of having such savings in their accounts yielding low interest rates, yet they have huge debts costing them high interest rates. Moreover, there is no need for Ann to convert \$ 25,000 she is expecting to receive next month from the balanced fund, yet the family is depending to debts to survive. As a result, they should use such amounts in settling some personal debts facing them.

Nevertheless, Ann can sell her shares valued at \$240,750 which for the past three years has only grown by \$5,150 to settle some of the couple's debts. In addition, Jack has an investment that the buyer is ready to buy at \$540,000 as compared to Jack's value of \$550,000. The proposed figure is not bad, and it can really help the couple settle all its debts and even remain with some cash that can allow them to invest in the new business opportunity that has been proposed to them by their family friend, which seems much profitable based on its demand.

The couple has committed itself to two different superannuation schemes, yet they are operating on debts, hence not making sense. As a result, Ann should counsel her salary sacrifices as she is she is not in a financial position that can allow her to comfortably do so. In addition, Jack should not continue contributing \$7,820 as concessional contribution because his financial position is poor. Instead, they should recognize that they are still young, and have lots of time at their disposal to make improvements in their savings.

After having a clear picture of the couple's financial management plan and the position they want to be in the near future, the couple will be in a position of controlling their expenses by creating a realistic budget that ensures enough saving to achieve the set goals. However, the family needs to pick a realistic time frame especially depending on their pay periods. In this case, they should make monthly budget because though Jack receives weekly income from tenant, but Ann receives her pay monthly. As a result, matching the two periods will serve better in this situation. This step is needed because it will put pen to paper in creating a spending plan that will allow the couple to make not only honest, but also educated decisions concerning the amount of income the couple has, and the disposal income available, and how such money should be spent (Vargo 2013).

The last but not least step for the couple to improve its situation is being flexible but accountable for their spending in their spending. This is because instead of two cars, the family can only have one car, because their financial position can't allow them to have two vehicles. They can make some money of about 32,500 or 21,000 depending on which vehicle they will sell. In addition, a \$16,000 home theatre system and holiday is unnecessary for a family that is struggling to meet its monthly expenses. As a result, the couple can do away with the system, and channel all its efforts towards increasing savings.

In case of any problem in taking the stated steps, the couple should consider seeking advice from a financial adviser especially on matter of investment options including their superannuation contributions and salary sacrificial.

Last but not least, Based on the fact that Jack's mother is dead, and his father is expected to mentally and physically incapacitated, the couple should start discussing a life and disability insurances for him, as he will remain alone and might be a burden to them. Nevertheless, as a result, the superannuation funds should be directed towards his premium payments.

The Illustration of Expected Outcomes from Taking Required Steps

The steps above aims at reducing expenditures while increasing the amount of money saved by the couple for future investments as well as having enough to deal with predictable expenses including hospital expenses, extra school fees and even invest e new business ventures. Based on the stated steps, the couple's budget can be adjusted as to reflect the following: the monthly income will reduce to \$28,750 as there will be no weekly tenant pay, no interests and dividends. On the other hand, the monthly expenses will only be mortgage, school fees for children, and household expenses, all totaling to **-\$16,458**. As a result, the monthly surplus will be **\$12,292**.

It is clear that the new steps will have very small effects on the couple's family incomes as only tenant weekly payments will be eliminated. However, a drastic reduction in the monthly expenses as a result of stated steps will better the financial position of the couple significantly, hence increasing their potential of saving. This is because the increased monthly surplus will mean low borrowing from banks as more money will be available implying that

the costs of interests on borrowed principles will reduce drastically (Vasilen & Alexandru 2009).

Now, with this monthly surplus, the couple can establish a new saving scheme that will allow them to access their money in case of any emergency. This is much better as compared to saving superannuation saving scheme which does not allow an individual to access his/her money in case of emergency. This will ensure that the couple has money at its disposable that can make them arrive at a quicker decisions about investing in a company proposed by the family friend without adjusting their budgets by \$50,000 within a very short period of time settle compulsory household expenditures, school fees for the other two kids and saving, among others. Though not stated, but a company having the ability to lower fuel consumption of motor vehicles by 80% is very profitable and will contribute greatly to the couple's monthly income as compared to shares and Jack's investments.

Generally, discussing Jack's father's life and disability insurances will greatly help the couple in financing father's medication and conditions.

In addition, Ann's much younger step-sister should be asked to start contributing towards household expenses. This will to some extent reduce the couple's expenditure on household expenses. Moreover, the step-sister should be entitled to the co-contribution, where the Australian government will be paying to her superannuation accounts because she is eligible and low income earner. Nevertheless, she should open a first home buyer's account that will enable her save money that will encourage her buy her own house in future, and stop being a dependant on the couple.

Conclusions

The case study has completely dealt with the required parts, namely identification of the problem the family is facing and/or will have in the near future, which is a negative cash flow of $-\$452.25$ implying that the couple has higher monthly expenses as compared to monthly incomes. The second part has identified various steps that can be taken by the couple to improve the situation; such steps include setting SMART goals like reducing personal debts, loan debts and investing in the new business opportunity proposed by the family friend; selling some of the assets to settle debts and loans immediately to avoid interest payments; and living a flexible life that will allow good spending behaviours; and even reducing contributions as well as salary sacrificial. The third section has illustrated the steps above will significantly result to a positive monthly saving of about $\$2,292$, meaning more money available to invest other profitable business opportunities. In addition, the young step sisters should also contribute towards household expenses apart from opening first home buyers account that will encourage her to buy her own house. They should also think of discussing life and disability insurances for the Jack's father who is expected to be incapacitated mentally and physically.

List of References

- Artha, Y. (2013), *7 Ratios which will reveal your current financial health*. [online] available at:
<http://profit.ndtv.com/news/your-money/article-7-ratios-which-will-reveal-your-current-financial-health-327196>. [Accessed on 13th October 2013].
- Vargo, J. (2013), *4 Steps for Families to Avoid Debt and Increase Savings*. [online] available at:
http://www.huffingtonpost.com/jaclyn-vargo/4-steps-for-families-to-avoid-debt-and-increase-savings_b_3644564.html. [Accessed on 13th October 2013].
- Vasile, G. & Alexandru, I. (2009), *The Liquidity Ratios And Their Significance In The Financial Equilibrium Of The Firms*. [online] available at:
<http://www.seap.usv.ro/annals/ojs/index.php/annals/article/viewFile/176/182>. [Accessed on 13th October 2013].

SAMPLE
Primeessaywritings.com