

# Statement of Financial Position

## Advanced Level

Meet Ian and Mitchell. Ian has an income of \$30,000 per year and a net worth of \$50,000. Mitchell has an income of \$85,000 per year and a net worth of \$35,000.

| Who is wealthier? |          |          |
|-------------------|----------|----------|
|                   | Ian      | Mitchell |
| <b>Income</b>     | \$30,000 | \$85,000 |
| <b>Net Worth</b>  | \$50,000 | \$35,000 |

Who do you think is wealthier, Ian or Mitchell? Why?

### Statement of Financial Position

**Net worth** is a measure of financial wealth and indicates the monetary value of all possessions that a person or household owns, minus the total amounts owed to others.

$$\text{Net Worth} = \text{Wealth}$$

Net worth is different than income. **Income** is money received such as wages earned from working for pay. A person can have a high income and low net worth and vice versa. If a person spends all money received and does not save and/or invest any money, they may have low net worth (no matter how high their income).

How do you determine your net worth? Net worth is calculated using the **Statement of Financial Position**. A **Statement of Financial Position** is a financial statement that describes an individual or family's financial condition on a specified date by showing assets, liabilities and net worth. A **Statement of Financial Position** is similar to a balance sheet made for businesses but is designed for individuals, families, and/or households. In fact, you may be asked to create a **Statement of Financial Position** at some point in your life by a financial advisor, loan officer, accountant, etc.

| Statement of Financial Position for:          |   |
|---|---|
| Date:   |   |
| Assets  |   |
| <b>Monetary assets</b>                        |   |
| Cash on hand                                  |   |
| Value of checking account and savings account |   |
| Other:  |   |
| <b>Subtotal of monetary assets</b>            | \$                                      |
| <b>Tangible Assets</b>                        |   |
| Market value of home                          |   |
| Market value of household furnishings         |   |
| Market value of automobile                    |   |
| Market value of electronics                   |   |
| Market value of clothing                      |   |
| Other:  |   |
| <b>Subtotal of tangible assets</b>            | \$                                      |
| <b>Investment Assets</b>                      |   |
| Value of Investments                          |   |
| Other:  |   |
| <b>Subtotal of investment assets</b>          | \$                                      |
| <b>Total Assets</b>                           | \$                                      |
| Liabilities                                   |   |
| Home mortgage balance                         |   |
| Installment loan balance for automobile       |   |
| Student loan balance                          |   |
| Credit card balance                           |   |
| Money owed to others                          |   |
| Other:  |   |
| <b>Total Liabilities</b>                      | \$                                      |
| <b>Net Worth</b>                              | <b>Total Assets - Total Liabilities</b> |
|   | \$                                      |

### Assets

**Assets** are items of monetary value that a person or household owns. Assets can be divided into three categories: monetary, tangible and investment.

- **Monetary assets** are assets that can be quickly and easily converted into cash. This includes any cash you have on hand plus money in checking and savings accounts.



## Assets, continued

**Tangible assets** (also known as use or lifestyle assets) are personal property items such as a home, an automobile, electronics, furniture and any other personal property used to create a lifestyle or to improve your life.

The value of tangible assets can change over time. For example, over the course of a year some of your tangible assets will increase in value while others may decrease in value. The relevant value for the Statement of Financial Position is the current market value of each item listed. The **market value** is the amount for which you could realistically sell the asset today, not what you originally paid for it.

There are resources that can help you determine the market value. Some website tools estimate the market value of automobiles. For example, Derek purchased a car two years ago for \$12,000. He used a website to determine that the current market value of his car was \$8,500. He should record \$8,500 on his Statement of Financial Position. To determine the market value of less expensive assets, such as electronics or furniture, your research could include websites such as Amazon, eBay and Craigslist. These websites and others specialize in selling new and used items.

**Investment assets** are financial assets purchased with the hope that they will generate income and appreciate in value to make it possible to sell at a higher price in the future. Investment assets include retirement accounts, stocks, bonds, mutual funds and other forms of financial investments.



What assets do you own?

## Liabilities

**A liability** is a debt or obligation owed to others. Examples of liabilities include the balances on your automobile loan and credit cards, student loan debt and other amounts you've promised to pay back to others.

Liabilities should be recorded in the liabilities section of your Statement of Financial Position. When recording the amount for each liability, indicate the amount necessary to pay off the loan in full today. For example, suppose you have an automobile loan that has a remaining balance of \$5,490. You still have 35 months of payments left before the loan is paid in full. If you were to continue making your scheduled monthly payments of \$180 including interest owed, you would have paid a total of \$6,300 over that 35 month period. But because a Statement of Financial Position is based on a specific date, you would record what you owe today, which is \$5,490, not the total payments equaling \$6,300.

It is important to note that liabilities are not expenses. A liability is a debt. The payment you make to pay back the debt is an expense. So, for example, your car loan is a liability and the monthly payment to repay the car loan is an expense.

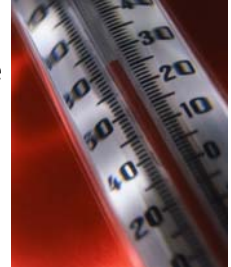
Do you have any liabilities?

## Net Worth

Once you have determined the value of all your assets and liabilities, subtract the total liabilities from the total assets to determine your net worth:

$$\text{Assets} - \text{Liabilities} = \text{Net Worth}$$

**Net worth** is like your personal financial thermometer. It provides you with a number that can measure your “financial temperature.” What do you want your financial temperature to be? The amount of desired wealth varies from person to person. For some, desired wealth is defined as having enough net worth to maintain a comfortable lifestyle during retirement. For others, it is having enough to feel a sense of satisfaction with their financial well-being. Determine what amount of net worth you desire and then set goals to reach that amount.



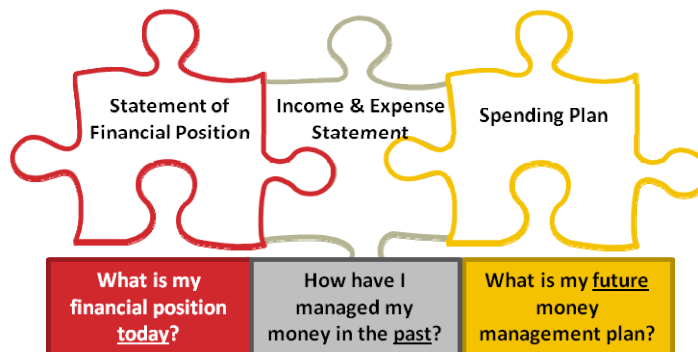
## Creating a Statement of Financial Position

*Your present self impacts your future self*

As you plan for your financial future, determine your net worth by creating a **Statement of Financial Position**. Research shows that individuals have a tendency to believe they owe less than they actually do or own more than they actually do. To avoid falling into this trap, a written **Statement of Financial Position** gives you a tangible record to refer to and helps you set financial goals. Use any written method that works for you (by hand, a spreadsheet, etc.). To increase your net worth, increase your assets, decrease your liabilities, or work on a combination of both.

Annual updates of your **Statement of Financial Position** are a good idea. If you are making major decisions such as to purchase a house or an automobile, create a statement more often. This will help you to keep your net worth in mind when making financial decisions, especially when taking on more liabilities. Before you commit to a loan, ask yourself whether you could use money gained from selling off an asset instead of taking out a loan? Could you decrease the amount of the loan by purchasing a less expensive item? Remember that the choices you make today will affect your financial future.

In addition to the **Statement of Financial Position**, there are two other money management tools that help evaluate your past, present and future financial decisions. They are the **Income and Expense Statement** and the **Spending Plan**. These three money management tools work together to help you objectively evaluate your financial situation and work towards reaching the net worth level you desire.



## STATEMENT OF FINANCIAL POSITION TEMPLATE

|   |  |    |
|---|--|----|
| <b>Statement of Financial Position for:</b>         |  |    |
| <b>Date:</b>  |  |    |
| <b>Assets</b>                                       |  |    |
| <b>Monetary assets</b>                              |  |    |
| Cash on hand  |  |    |
| Value of checking account                           |  |    |
| Value of savings account                            |  |    |
| Other:  |  |    |
| <i>Subtotal of monetary assets</i>                  |  | \$ |
| <b>Tangible Assets</b>                              |  |    |
| Market value of home                                |  |    |
| Market value of household furnishings               |  |    |
| Market value of automobile                          |  |    |
| Market value of electronics                         |  |    |
| Market value of clothing                            |  |    |
| Market value of jewelry                             |  |    |
| Market value of sporting goods                      |  |    |
| Other:  |  |    |
| <i>Subtotal of tangible assets</i>                  |  | \$ |
| <b>Investment Assets</b>                            |  |    |
| Value of investments                                |  |    |
| Other:  |  |    |
| <i>Subtotal of investment assets</i>                |  | \$ |
| <b>Total Assets</b>                                 |  | \$ |
| <b>Liabilities</b>                                  |  |    |
| Home mortgage balance                               |  |    |
| Installment loan balance for automobile             |  |    |
| Student loan balance                                |  |    |
| Personal loan balance                               |  |    |
| Credit card balance                                 |  |    |
| Money owed to others                                |  |    |
| Other:  |  |    |
| <b>Total Liabilities</b>                            |  | \$ |
| <b>Net Worth = Total Assets - Total Liabilities</b> |  | \$ |