

Balance Sheet

A personal balance sheet is a statement of net worth and consists of three main parts:

Assets = What we own

Liabilities = What we owe

Net Worth = Assets – Liabilities

There are two different kinds of assets.

Current assets = Those we expect to use up within a year or can easily be converted to cash within 12 months.

Long-term assets = Those that we expect to have for over a year.

Many people think they don't have many assets because they think of these things as items like cash, securities, vehicles, or a home. However, all your clothes, jewelry, linens, dishes, pots and pans, furniture, exercise equipment, hobby components, and other personal belongings are assets. It is important to insure all your assets. Protecting what we own is one of the steps you can take to move closer to financial independence.

You can begin to build your balance sheet by taking an inventory of your assets. Don't forget to include any 401K or IRA you have set up for retirement in your assets.

Taking a physical inventory...

Take a few minutes and imagine you are looking at one room in your home. Without looking, can you make a complete listing of what is in that room? Now how about the garage, the basement, or the attic? Any idea what items are in each of these locations? It is essential to have a complete inventory of the items in your home in order to be sure you can be fairly compensated should you have to report a casualty loss.

For insurance purposes many individuals are now beginning to video the contents of each room in their homes so they have a record of all their assets in case of a loss.

Liquid assets explained...

Assets can have various states of liquidity. The most liquid assets can be converted to cash within 12 months or less, while the least liquid assets would need a period longer than 12 months converted to be converted into cash.

There are also two different kinds of liabilities.

Current liabilities = Those we expect to pay the balance on within 12 months.

Long term liabilities = Those we expect to pay the balance on more than 12 months from the balance sheet date.

Once you know your assets and liabilities you can calculate your net worth by subtracting liabilities from assets.

Here is a sample balance sheet for review.

ASSETS		LIABILITIES	
Current Assets:		Current Liabilities	
Cash	\$2,800	Credit Card	\$10,000
Stocks	\$30,000	Auto Loan (due in 12 months)	\$15,000
		Mortgage (due in 12 months)	\$12,000
Total Current Assets		Total Current Liabilities	\$37,000
Long Term Assets:		Long Term Liabilities	
Auto	\$50,000	Mortgage	\$88,000
House	\$450,000	Total L/T Liabilities	\$88,000
401k	\$60,000		
Savings	\$35,000		
Total Long Term Assets		Owner's Equity	\$502,800
Total Assets	\$627,800	Total Liabilities and Owner's Equity	\$627,800

A Balance Sheet template has been provided for your use. Calculate your own net worth and see how it stacks up to what you expected your equity to be at this point in your life. Is it what you expected?

Resources

Anderson, T. (2016, June 2). [How to benchmark your net worth in 3 easy steps](https://www.forbes.com/sites/tomanderson/2016/06/02/how-to-benchmark-your-net-worth/#aefcf20e10f2). Retrieved from <https://www.forbes.com/sites/tomanderson/2016/06/02/how-to-benchmark-your-net-worth/#aefcf20e10f2>

- A better way to measure wealth than just your investment portfolio performance is your net worth, which is simply your assets minus your liabilities. This site aids you in calculating your net worth.

Bankrate. (n.d.). [Net worth calculator](https://www.bankrate.com/calculators/smart-spending/personal-net-worth-calculator.aspx). Retrieved from <https://www.bankrate.com/calculators/smart-spending/personal-net-worth-calculator.aspx>

- Net worth is the value of all assets, minus the total of all liabilities. Put another way, net worth is what is owned minus what is owed. This net worth calculator helps determine your net worth. It also estimates how your net worth could grow or decline over the next 10 years.

CNN Money. (n.d.) [What are you worth?](http://cgi.money.cnn.com/tools/networth/networth.html) Retrieved from <http://cgi.money.cnn.com/tools/networth/networth.html>

- This link takes you to a compact and easy to use online net worth calculator.