

STATEMENT OF FINANCIAL POSITION

ADVANCED LEVEL



WHO IS WEALTHIER?

Ian



Income - \$30,000



Net Worth - \$50,000

Mitchell



Income - \$85,000



Net Worth - \$35,000

Let's learn more to answer this question!

Net Worth



Wealth

The measure of
financial wealth

Indicates the monetary
value of all possessions
that a person or
household owns,
minus the total
amounts owed to
others

NET WORTH VS. INCOME

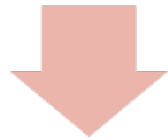
Net Worth	Income
Depends on how a person manages their income	Money received such as wages earned from working for pay

A person may have high income and low net worth or vice versa

HOW DO YOU DETERMINE WHAT YOUR NET WORTH IS?



Statement of Financial Position - A financial statement that describes an individual or family's financial condition on a specified date by showing assets, liabilities, and net worth



Shows a person's net worth



Similar to a net worth statement or balance sheet

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

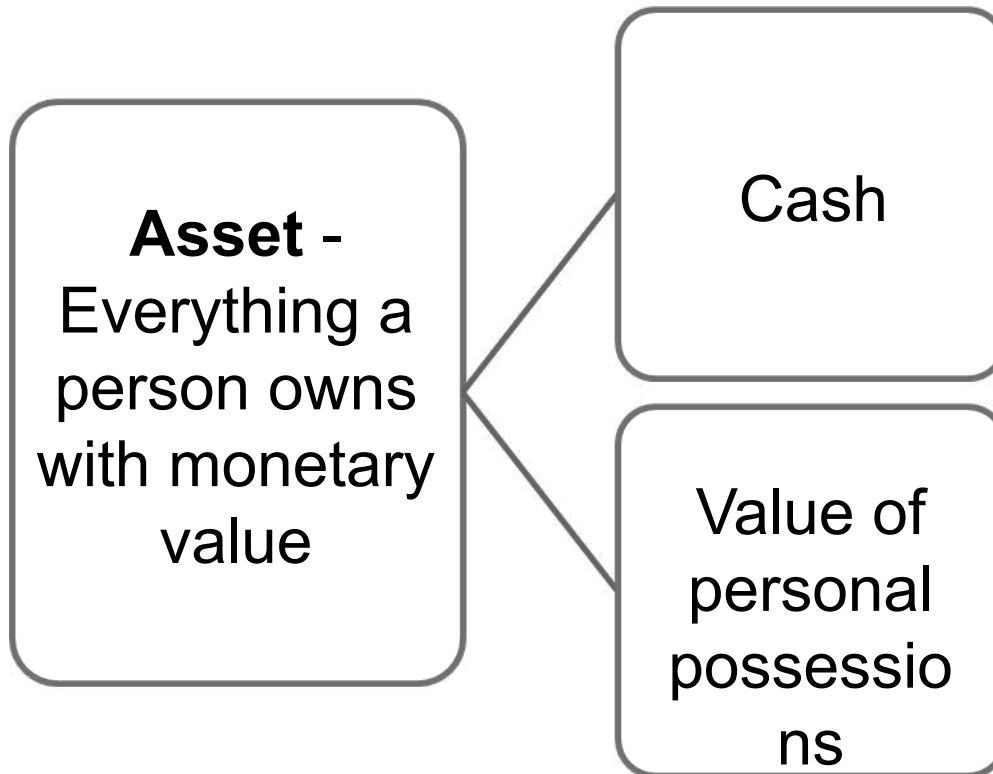
THREE COMPONENTS

1. Assets
2. Liabilities
3. Net Worth

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

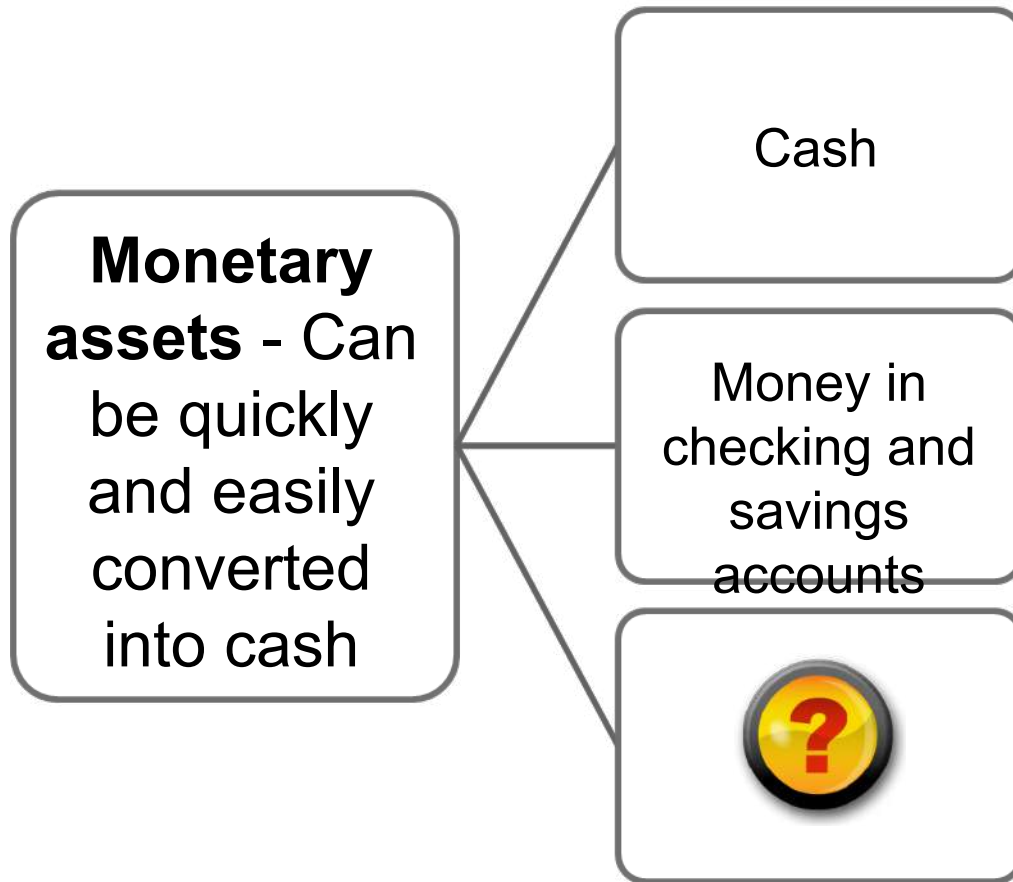


WHAT IS AN ASSET?



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

MONETARY ASSETS



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

TANGIBLE ASSETS

Tangible assets -
Personal property that was purchased to create a lifestyle or improve your life (also known as use or lifestyle assets)

Homes

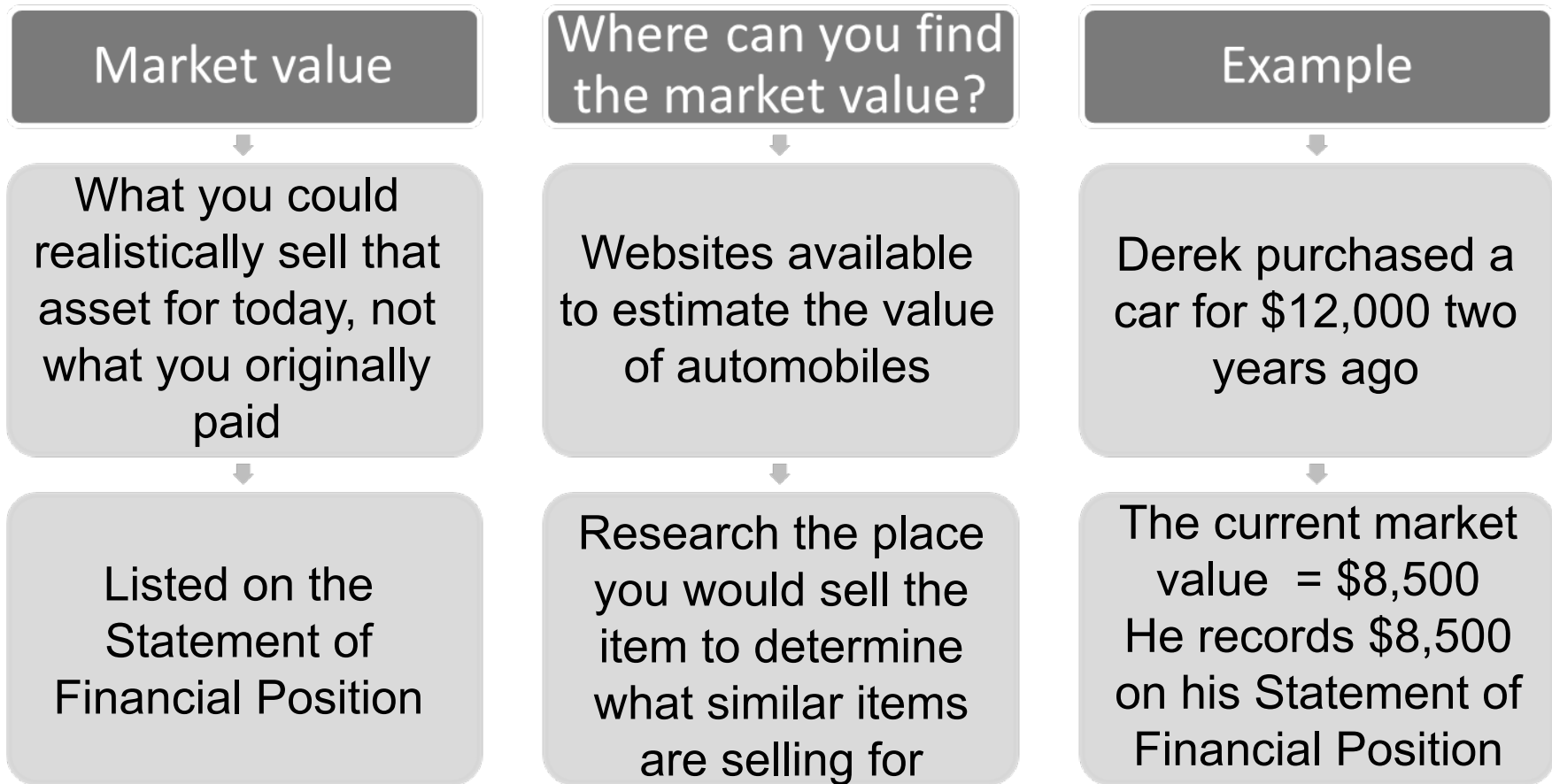
Automobiles

Electronics

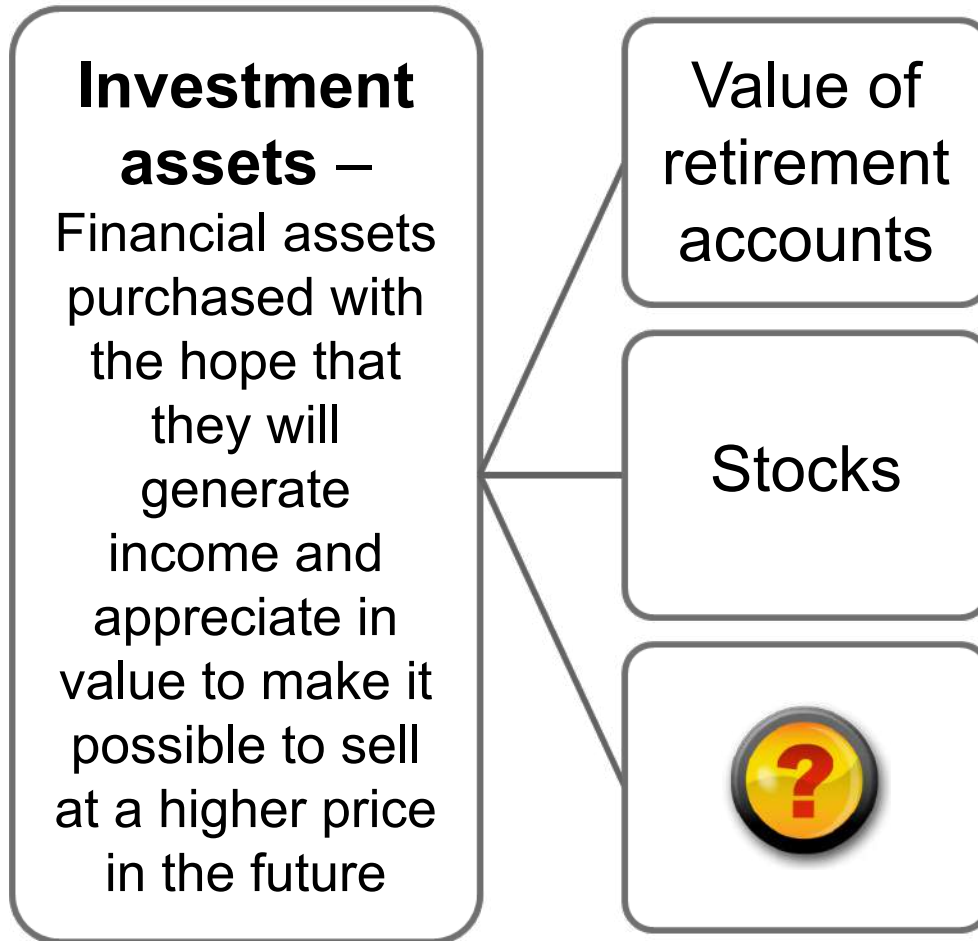


Statement of Financial Position for:	
Date:	
Assets	
<i>Monetary assets</i>	
Cash on hand	
Value of checking account and savings account	
Other:	
<i>Subtotal of monetary assets</i>	\$
<i>Tangible Assets</i>	
Market value of home	
Market value of household furnishings	
Market value of automobile	
Market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

HOW DO YOU DETERMINE THE VALUE OF TANGIBLE ASSETS?

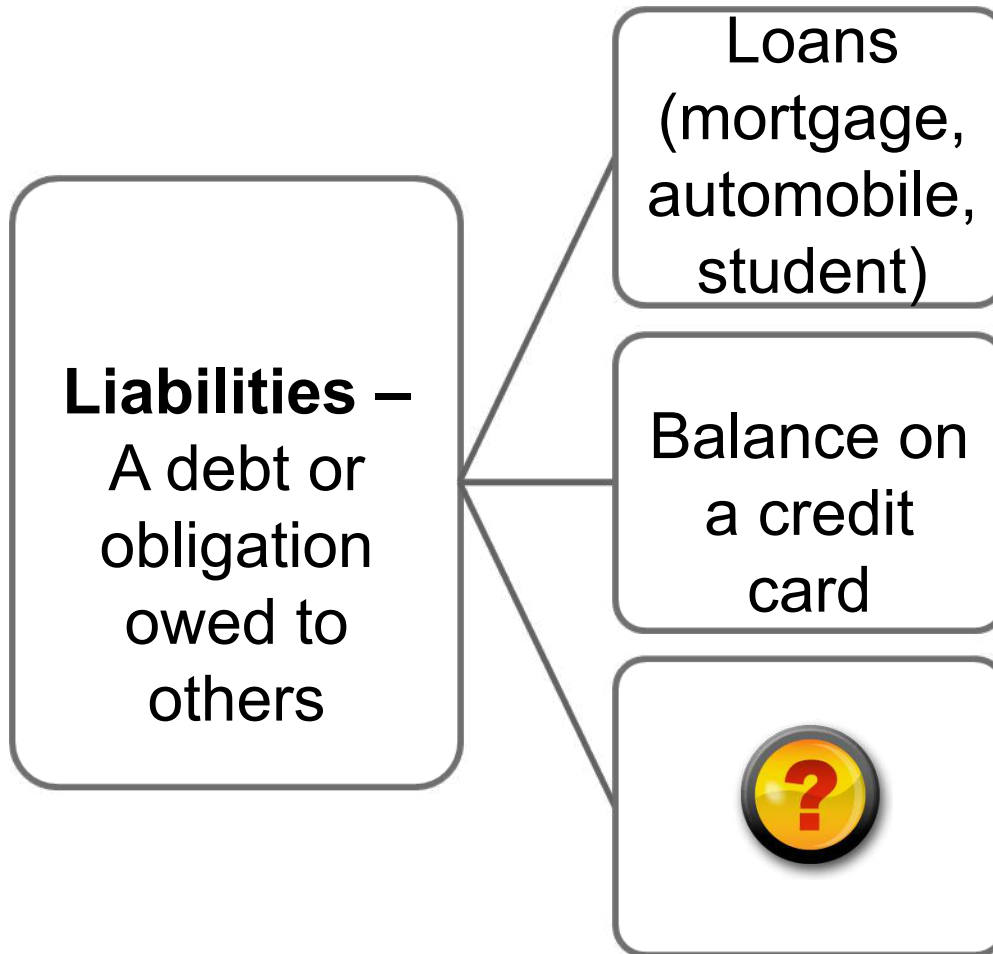


INVESTMENT ASSETS



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

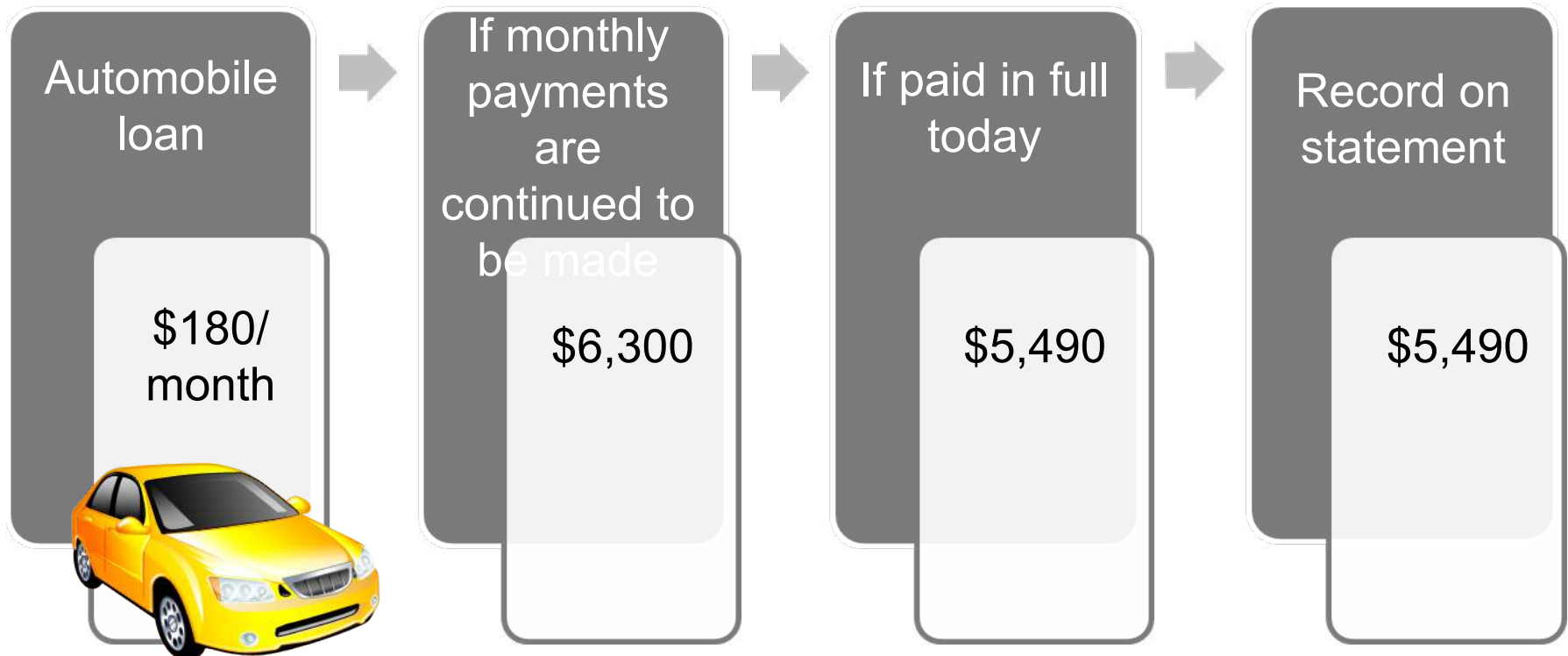
WHAT ARE LIABILITIES?




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

WHAT IS RECORDED IN THE LIABILITIES SECTION?

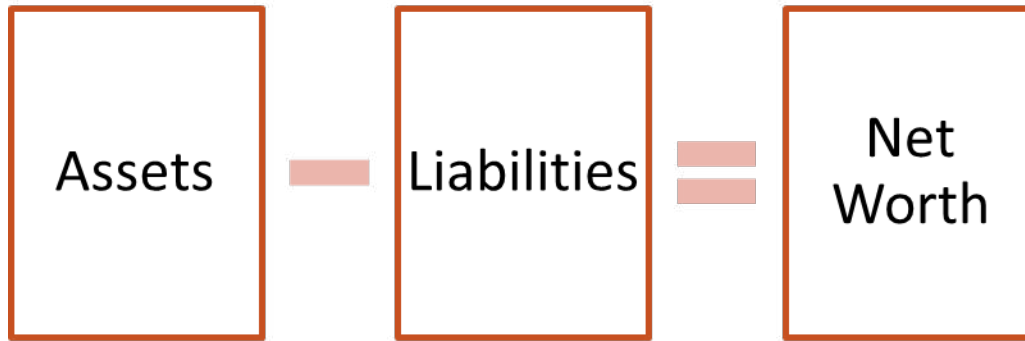
Amount you owe if you were to pay the amount owed in full today



LIABILITIES VS. EXPENSES

	Liabilities	Expenses
Definition	Money owed to others	Money spent
Characteristics	Total amount owed	Bills paid on a regular basis
Example 	Automobile loan - \$5,490 owed	Monthly payment to repay that automobile loan - \$180/month

CALCULATING NET WORTH



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

NET WORTH – YOUR PERSONAL FINANCIAL THERMOMETER

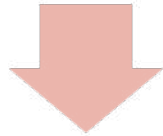
Provides a number that can objectively measure your “financial temperature”



Determine what amount of net worth you desire and then set goals to reach that amount

HOW CAN YOU INCREASE NET WORTH?

How do you increase assets and/or decrease liabilities?

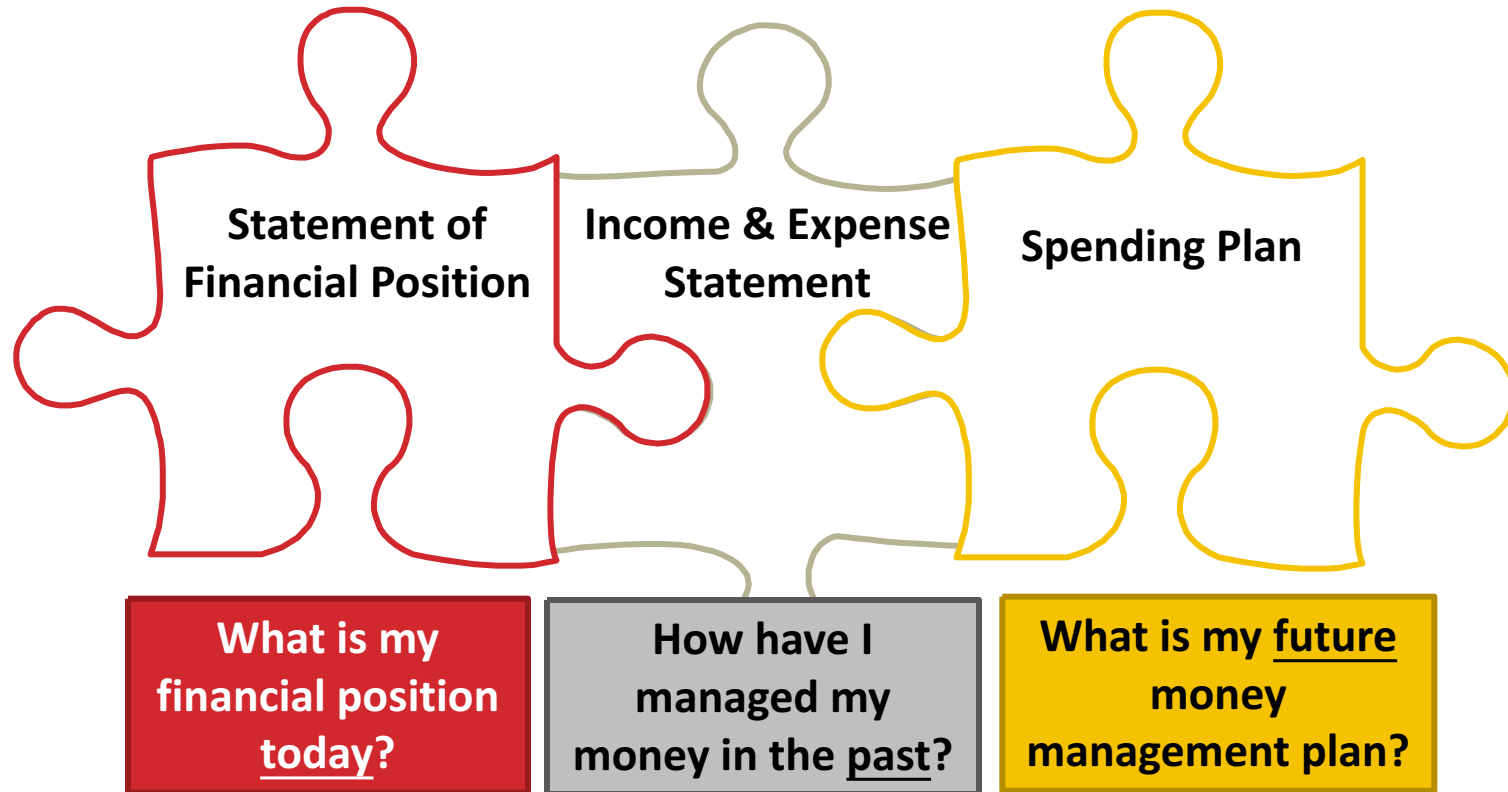


Evaluate how you manage your money



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

MONEY MANAGEMENT TOOLS



Work together to help you objectively evaluate your past, present, and future financial decisions



Reach net worth level desired

YOUR PRESENT SELF IMPACTS YOUR FUTURE SELF

Keep your net worth in mind when making financial decisions

Present



Future

How will this financial decision affect my future net worth?



SO WHO IS WEALTHIER?

<i>Ian's Statement of Financial Position</i>	
Assets	
Home	60,000
Retirement	20,000
Savings	5,000
Automobile	10,000
Total Assets	\$95,000
Liabilities	
Mortgage (house loan)	40,000
College loan	5,000
Automobile loan	0
Credit card debt	0
Total Liabilities	\$45,000
Net Worth	\$50,000

Income - \$30,000

Net Worth - \$50,000

<i>Mitchell's Statement of Financial</i>	
Assets	
Home	
Retirement	
Savings	
Automobile	
Total Assets	
Liabilities	
Mortgage (house loan)	
College loan	
Automobile loan	
Credit card debt	
Total Liabilities	
Net Worth	

Income - \$85,000

Net Worth - \$35,000



DISCUSSION

Do you think Ian is making any trade-offs to have higher net worth than Mitchell even though he has a lower income?

How could both Ian and Mitchell increase their net worth?

If Ian and Mitchell were thinking about going on vacation, how would their statement of financial position guide their decision?

WHEN WOULD A PERSON NEED OR WANT TO CREATE A STATEMENT OF FINANCIAL POSITION?



Recommended



Once per year



Must be written to be most effective – use any written method that works for you

Special Times



When making decisions regarding assets or liabilities



May have to create a statement for a financial professional

MEET TORI

Tori is considering purchasing a new pre-owned car. She would like to know what her net worth is to help her make this decision.



Your Job:

Use the information provided to create a
Statement of Financial Position for Tori

ABOUT TORI

Record all applicable information in the “current” column of Tori’s Statement of Financial Position



21 years old

Completing
training to be a
radiology
technician

Has one
semester of
training left

Works part-time
to earn \$13,000
per year

Owes \$5,000 in
student loans that
helped pay for
her schooling

ABOUT TORI



Owens a car that runs fine but would like an upgrade

- Used a website to determine the market value of her current car = \$3000

Has \$1,000 in her checking account

Keeps \$20 in cash in her wallet at all times

Keeps \$2,000 in her savings account for emergencies

ABOUT TORI



Rents a one
bedroom apartment
and owns \$1,000
worth of furniture
and other

household supplies

Loves to shop and
estimates that she
owns \$1,500 worth
of clothes and
shoes

Bought a laptop
computer when she
started school but
estimates that it is
only worth \$200

now

Invests \$20 per
month into a
retirement account –
that account is
currently worth \$500

TORI'S CURRENT STATEMENT OF FINANCIAL POSITION

Assets	
<i>Monetary assets</i>	
Cash on hand	20.00
Value of checking account	1,000.00
Value of savings account	2,000.00
<i>Subtotal of monetary assets</i>	\$3,020.00
<i>Tangible Assets</i>	
Market value of household furnishings	1,000.00
Market value of automobile	3,000.00
Market value of electronics	200.00
Market value of clothing	1,500.00
<i>Subtotal of tangible assets</i>	\$5,700.00
<i>Investment Assets</i>	
Value of retirement account	500.00
<i>Subtotal of investment assets</i>	\$500.00
Total Assets	\$9,220.00
Liabilities	
Student loan balance	5,000.00
Total Liabilities	\$5,000.00
Net Worth = Total Assets - Total Liabilities	\$4,220.00

If she
purchased a
new car

Tori would like to trade in her car for a new pre-owned car priced at \$12,000. She would receive \$2,000 trade-in value for her car making the purchase price of the new car \$10,000.

She will use \$1,000 from her emergency savings and apply for a loan for the remaining \$9,000.



If Tori purchased this car today, how would her Statement of Financial Position be affected?

Assets		
Monetary assets		
Cash on hand	20.00	20.00
Value of checking account	0.00	1,000.00
Value of savings account	0.00	1,000.00
Subtotal of monetary assets	20.00	\$2,020.00
Tangible Assets		
Market value of household items	0.00	1,000.00
Market value of automobile	0.00	12,000.00
Market value of electronics	200.00	200.00
Market value of clothing	1,500.00	1,500.00
Subtotal of tangible assets	\$5,700.00	\$14,700.00
Investment Assets		
Value of retirement account	500.00	500.00
Subtotal of investment assets	\$500.00	\$500.00
Total Assets	\$9,220.00	\$17,220.00
Liabilities		
Student loan balance	0.00	5,000.00
Installment loan balance	0.00	9,000.00
Total Liabilities		\$14,000.00
Net Worth = Total Assets - Total Liabilities	\$5,220.00	\$3,220.00



DISCUSSION

What is Tori's current net worth?

What would her net worth be if she purchased the new car today?

Based upon Tori's Statements of Financial Position, would you recommend that she purchase the new car? Why or why not?

Consider what trade-offs she will have to make with both options



DISCUSSION

How could Tori increase her current net worth?

Tori has chosen to use student loans to help her pay for training to become a radiology technician

This has lowered her current net worth, but what affect may it have on her future net worth?

By investing in higher education she is helping to increase her future income earning ability and therefore make it easier to increase her future net worth

SUMMARY

Statement of Financial Position is an important money management tool that shows net worth



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



Net worth is an objective measure of wealth



Net worth is your “financial thermometer” to objectively measure your financial position



To increase net worth you will have to increase assets or decrease liabilities