



Your Financial Health – Balance Sheets

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Where do you stand financially? Have your finances improved since last year? How much money did you spend last year, and on what? Are you using too much credit? If you have trouble answering these questions, you need to organize your records and measure your financial health. Tracking your financial health is as important to your well-being as taking care of your physical health. As part of the *Your Financial Health* series, this publication will give you a basic understanding of Balance Sheets, a record which will help you measure the state of your financial health.

Balance Sheet Basics

A balance sheet, sometimes called a “Net Worth Statement,” can be thought of as a snapshot of how your finances look at one point in time. For this reason, a balance sheet should be dated. If you develop a balance sheet annually, you can compare whether or not you are “getting ahead”. A balance sheet can be useful when you need to:

- apply for a loan.
- calculate your need for insurance protection.
- plot your financial growth.
- establish goals for the future.

The balance sheet is designed to help you determine your wealth. It is composed of three components: assets (what you own), liabilities (what you owe), and net worth (the difference between assets and liabilities).

Assets are the items you own that are worth money. There are three types of assets. The first—called liquid assets—include cash and cash equivalents, such as money in savings, checking, and money market accounts, as well as certificates of deposit. Tangible assets are physical assets like your car, home, furniture, or collectible items. The third type is called investment assets and include stocks, bonds, mutual funds, retirement funds, etc. Assets are represented on your balance sheet by their fair market value, or what someone would pay for them in their current state. When recording them, try to estimate the value that you could get for each item if you had to sell it quickly.

Liabilities are obligations that you owe to creditors. These will include things like your mortgage, car loan, student loan, and whatever credit card debt you owe. When recording these debts on your balance sheet, use the principal balance that is owed if you paid off the debt today.

Net worth is the difference between your assets and liabilities. It represents the value of everything you own if you paid off everything you owe today. The balance sheet gets its name because the two sides of your net worth—assets and liabilities—are balanced against each other.

Balance Sheet Calculations

As mentioned earlier, assets should be listed at their current fair market value. This means they are valued at the price you could sell them for today, not what you paid when you acquired them.

There are some common assets that many households possess and will therefore need to be recorded on their balance sheet. Here are some suggestions on valuation methods:

- House – check real estate ads or a website such as Zillow, Trulia, or Redfin to see what comparable homes are selling for (do not forget to account for location). Or, you could have your home appraised by a professional.
- Vehicle(s) – Use the Kelley Blue Book or Edmunds value; this information is readily available on the internet.
- Personal property (i.e. furniture or clothing) – Use the price you would receive at a yard sale or auction.
- Antiques, jewelry, collectibles – Use an official appraisal value.
- Insurance – Determine the cash surrender value of your insurance plans by checking your statements or calling your agent.
- Investments – Check with your company benefit officer, investment fund statements, financial planner, or stock/bond price listings.

Liabilities should be listed on your balance sheet as the amount currently outstanding. Check your mortgage statement for the principal balance you still owe or call your mortgage company. Check the balance due on any other debt you have, such as credit cards, student loans, automobile loans, personal loans, and installment loans.

Using the guidelines above, record your assets and liabilities on the worksheet in **Appendix A**. Be sure to enter the date that corresponds to these numbers. Once you have filled out the Assets and Liabilities sections, you are ready to calculate your net worth. To do so, subtract the total value of your liabilities from the total value of your assets ($\text{Assets} - \text{Liabilities} = \text{Net Worth}$). This provides you with a snapshot of your financial worth at one point in time. Calculating your net worth once a year, at around the same time each year, will tell you whether your financial situation is improving or decreasing.

Summary

Financial statements are the foundation of a financial plan; in order to plan for the future, you have to know where you are right now. A balance sheet will show you a snapshot of your finances. Created at regular intervals, balance sheets can be compared to give you an idea of how your finances are changing over time. For information on how to interpret your balance sheets and analyze your financial health, see *Your Financial Health – Interpreting Statements & Using Ratios*. Given an understanding of your current financial health, you can create the plans you need to reach your goals.

Appendix A – Balance Sheet

| | Date: __/__/____ | Date: __/__/____ |
|---|------------------|------------------|
| Assets | | |
| Cash and short-term investments | | |
| House and other real estate | | |
| Vehicle(s) | | |
| Personal property | | |
| Antiques, Jewelry, Collectibles | | |
| Insurance (cash value of whole life) | | |
| Investments | | |
| Other assets | | |
| Total Assets = | \$ | \$ |
| Liabilities | | |
| Mortgage(s) and lien(s) | | |
| Automobile loan(s) | | |
| Student loan(s) | | |
| Installment debt(s) | | |
| Credit card debt | | |
| Other Debts | | |
| Total Liabilities = | \$ | \$ |
| Net Worth = Total Assets – Total Liabilities | \$ | \$ |