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G89-940 Financial Planning Form: Net Worth Statement

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Financial Planning Form: Net Worth Statement

This NebGuide gives step-by-step instructions for filling out the included net worth statement, sometimes called a balance sheet.

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A net worth statement, or balance sheet, is like a snapshot that shows a financial situation at a certain point in time. In simple terms, the net worth sheet shows how much money would be left if everything owned was converted into cash and used to pay off all debts.

The net worth statement includes what is owned (**assets**) on the left side of the sheet, what is owed to creditors (**liabilities**) on the right side of the sheet, and the net value or difference between what is owned and what is owed (**net worth**). This net worth statement also shows two financial ratios for use in analyzing a financial situation: (1) the *current* or *liquidity ratio*, which is the ratio of current or liquid assets to current liabilities; and (2) the *debt load ratio* or the ratio of total debts to total assets.

Why a Net Worth Statement?

A net worth statement is an important financial tool because it helps:

- check progress towards financial goals,
- plan for changes in assets or liabilities,
- keep tax liability down to the minimum level,
- estimate how well dependent survivors would be able to live on current inheritance,
- determine the need for life and property insurance,
- serve as a reminder to make adjustments in insurance coverage or assets held,
- give an estimate of retirement income potential,
- provide a way to chart financial progress over the years.

Assets, or What is Owned

Assets are divided into three categories: current assets, fixed assets, and deferred assets.

Current assets are cash or things that could be easily converted into cash, such as cash on hand, a savings account, or a money market account.

Fixed assets, such as a home or car, are those owned items not expected to be sold or converted into cash.

Deferred assets include assets that cannot be converted into cash, either at all, or not without a substantial penalty, until a later time. IRAs and retirement plans are examples of deferred assets.

To complete the net worth statement, show current cash value figures for all assets. Use actual cash figures for cash on hand, and in checking and savings accounts. *Include money owed to you only* if you are certain of repayment. Find the current market values of certificates, stocks, bonds, and mutual fund shares by checking the market quotes in a newspaper or by contacting your broker or the issuing agency or institution.

Put a cash value on fixed assets by getting an accurate estimate of what would be received if the asset was sold today. Some experts suggest the ballpark figure of \$10,000 for the personal property of a two-adult household.

A household inventory (if done with actual and not just replacement figures) may be helpful in estimating the value of possessions; just be sure to estimate conservatively. For special personal property such as jewelry or antiques, an accurate appraisal by a credentialed expert is needed.

Vehicle valuations can be found in the *Kelley Blue Book* available at the library, automobile dealers, or financial institutions. Also, enlist the help of an expert in estimating the value of your home and other real estate.

Develop a current value figure for deferred assets by contacting the institution holding them or the employee benefits office of the place employed. Only vested amounts should be considered.

Liabilities, or What is Owed

Two categories of liabilities are included in this net worth sheet: **current liabilities**, owed within the next 12 months; and **long-term liabilities**, or debts extending beyond the coming year. Amount of current liabilities includes the amount of money needed from current assets to stay solvent for the short term, assuming no additional income or debts.

For current liabilities the cash value of each liability is what is owed, principal and interest, on the debt within the next 12 months, and beyond the next year for long-term liabilities.

For current bills, include the statement figure of unpaid debt such as medical or dentist bills and other obligations as of the date of worth sheet. Include the current month's rent if not already paid. Taxes are listed if there is an unpaid balance due.

Current amounts of debts can be found on the payment stub, each bill statement, or by checking with lenders.

How to Find Net Worth

Calculate net worth by subtracting the figure for total liabilities from the figure for total assets. According to the Federal Reserve System, the average American household has a net worth equal to five times its debt load.

Net worth typically increases with age; if it doesn't, check to see if there's too much debt or if assets haven't performed as needed. Then, make necessary adjustments to the financial situation. Net worth may be increased by increasing assets, paying off liabilities, or through appreciation in the value of assets over time.

Ratios on the Net Worth Statement

This net worth statement includes two ratios useful for assessing financial stability: the current or liquidity ratio and the debt load ratio.

Find the current or liquidity ratio by dividing current assets by current liabilities. Most experts like to see a ratio of at least 1.0 so current liabilities are covered by current assets. Whether that guideline applies to a particular situation depends on the total picture, not just on this one ratio. This figure can, however, help determine how well the household might do in case of short-term income loss due to disability or unemployment, for example.

Find the debt load ratio by dividing total liabilities by total assets. A debt load figure of less than 1.0 is preferred, but be sure to look at the total financial picture and not just this one ratio to determine if the debt ratio for a particular situation could be higher or should be lower.

You're Finished--Now What?

Study the net worth statement and use it to plan your financial future. You can see the progress made towards financial goals; whether net worth is increasing or decreasing; what changes you may need to make in assets, liabilities or insurance coverage; and how you may need to shift assets or liabilities to better your financial position.

Generally, a net worth statement is done once annually. Whenever you do one, be sure to date it. Once you've done one, compare each subsequent net worth statement to the previous one(s). A net worth statement can be a useful tool for making financial decisions. Other financial decision-making tools include the income statement and cash flow planning form. Examples of these planning tools are available from the extension service office.

Net Worth Sheet

As of _____ (date)

Assets

Current Liquid Assets

---Cash on Hand	\$ _____
---Checking Account	\$ _____
---Savings Account	\$ _____
---Certificates	\$ _____
---Money Owed You	\$ _____
---Tax Refund Due	\$ _____
---Cash Value-Life Ins.	\$ _____

----Stocks/Bonds \$ _____
----Mutual Fund Shares \$ _____

----Other _____
---- _____
---- _____ \$ _____

Total Current Assets \$ _____

Fixed Assets

----Automobiles \$ _____

----Home \$ _____

----Personal Property \$ _____

----Other _____
---- _____
---- _____
---- _____ \$ _____

Total Fixed Assets \$ _____

Deferred Assets

----Retirement Plan \$ _____

----I.R.A. \$ _____

----Other _____
---- _____
---- _____
---- _____ \$ _____

Total Deferred Assets \$ _____

Total Assets \$ _____

Liabilities

Current Liabilities

----Auto Loan \$ _____

----Installment Debt \$ _____

----Personal Loan \$ _____

----Charge Accounts \$ _____

----Credit Cards \$ _____

----Mortgage Loan \$ _____

----Insurance Due \$ _____

----Taxes Due \$ _____

----Other _____
---- _____
---- _____
---- _____ \$ _____

<i>Total Current Liabilities</i>	\$ _____
Long-Term Liabilities	
----Auto Loan	\$ _____
----Installment Loan	\$ _____
----Personal Loan	\$ _____
----Mortgage Loan	\$ _____
----Other _____	
---- _____	
---- _____	
---- _____	\$ _____
<i>Total Long-Term Liabilities</i>	\$ _____
Total Liabilities	\$ _____
Net Worth	\$ _____
Current Ratio (current assets current ÷ liabilities)	\$ _____
Debt Load (total liabilities ÷ total assets)	\$ _____

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