WOMEN AND WEALTH

Creating a Personal Balance Sheet

Understanding your current financial condition is one of the first steps in taking charge of your finances, and this begins with creating a personal balance sheet—also known as a net worth statement.

Think of the personal balance sheet as a “snapshot” of your current financial situation. It is an itemized summary of everything you own (your assets) and everything that you owe (your liabilities) at a point in time, usually month end, quarter end or year end. Your net worth equals your assets minus your liabilities.

Begin by making an itemized list of all of your assets. It is helpful to separate the list by major categories, including liquid assets, investment assets, retirement assets, and personal assets. Note: If you are self-employed, you should include a section for your business assets.

Next, create an itemized list of your outstanding debts. This will include the current unpaid balance on all loans. If you have included your entire checking account balance in the asset list, you will also need to include your outstanding monthly bills.

Since the balance sheet is a snapshot at a point in time, it is best if you value all of the assets and liabilities on the same day. For example, you might want to check the end-of-month (or end-of-year) balances on all of your assets and liabilities.

To compute your net worth, simply subtract your total liabilities from your total assets.

Net Worth = Assets – Liabilities

Comparing your net worth statements from one period to the next can give you a picture of how you are doing over time. Is your net worth increasing (hopefully), or decreasing over time?

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Liquid Assets (cash and cash-like assets)

- [ ] Cash
- [ ] Checking accounts[1]
- [ ] Savings accounts
- [ ] Money market accounts and money market mutual funds
- [ ] Certificates of Deposit
- [ ] Cash value of life insurance

Personal Assets

- [ ] Homes
- [ ] Other real estate held for personal use
- [ ] Vehicles (including autos, watercraft, recreational vehicles, etc.)
- [ ] Jewelry and other valuables
- [ ] Collectibles (e.g., coins, stamps, antiques, etc.)

Investment Assets

- [ ] Current market value of stocks, bonds, mutual funds, REITs, etc., held individually or in brokerage accounts
- [ ] Limited partnership interests
- [ ] Promissory notes (from money you lent to others)
- [ ] Real estate (held for investment purposes)

Retirement Assets

- [ ] Vested balance of employer-provided retirement plans (e.g., 401(k), 403(b), 457, profit-sharing, etc.)
- [ ] Balance of IRAs, Roth IRAs, SEP or SIMPLE IRAs, Keoghs, and other self-directed plans
- [ ] Vested balance of deferred compensation and cash balance pension plans

Liabilities

- [ ] Auto and consumer loan balances
- [ ] Student loan balances
- [ ] Mortgage balances
- [ ] Credit card balances
- [ ] Outstanding tax obligations
- [ ] Any other outstanding debt obligations

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[1]Technically, you should include the entire balance in your checking account and create an off-setting liability for any outstanding bills. However, you may simplify by including only the amount of “cushion” you keep in checking—the excess over what is needed to pay your current monthly bills.