



Lesson Module 1:
The Fundamentals of Net Worth



Module 1 – Overview

The entire game of football is based on a few basic skills: blocking, tackling, passing and running. To be a successful football player, one has to have a solid understanding of the fundamentals. All other aspects of the game are based on these essential skills.

Financial success depends on fundamentals, too. The components of net worth: revenues, expenses, assets and liabilities – a solid knowledge of these skills will prepare students to perform their best and to succeed in the world of finances. And unlike football, everyone plays in the game of finances.

Revenues and expenses are two of the most important concepts for students to understand. In this lesson, students will learn the answer to the question, “Where is my money going?” Without knowing where it’s going, students can’t cut expenses, create a budget or save.

This lesson also teaches students about net worth, assets and liabilities, concepts that are the basis for many future lessons. They’re the first step in understanding debt and investing.

Goals

- Give students a solid foundation of knowledge on which to build financial literacy

Objectives

- Learn how to compute net worth
- Learn to identify expenses
- Define assets and apply the definition to real-life examples
- Define liabilities and determine their relation to assets
- Combine the understanding of all these concepts into a base for future learning



Module 1 – Teaching Notes

Net Worth is a rough representation of your financial position at one point in time. The formula to calculate your net worth is:

Net Worth = Assets – Liabilities

An **asset** is something that you own that has positive economic value. It can be a liquid asset, meaning it can be easily turned into cash. A savings account is a liquid asset since the money within can usually be withdrawn. Things of value that you own are also considered assets because you can sell them. However, these are not considered as liquid since it may take time to sell them, and often you can't be sure of the price you'll receive from the sale.

Assets can serve as ways to save money, and they can also serve as ways to earn money. We'll talk about interest in future lessons.

A **liability** is something that you owe...something that has negative economic value. Any balance you have on a credit card or loan is a liability. Also, any monetary agreements in which you agree to pay a certain amount of money are liabilities.

Liabilities detract from your overall financial picture. They weigh you down. While you may be able to carry a certain amount of liability, too much could stop you from doing the things you want to do.

Affecting Net Worth

An **expense** is simply something you spend money on. It can be a recurring expense, as in a monthly bill, or a one time expense, like going to a store and buying something with cash.

Obviously, the more expenses you have, the less money you'll end up with. If you have more expenses than you have money, you may be in trouble.

Revenue is the money you have coming in. A paycheck is an example of revenue and so is a cash gift from Grandma.

The goal is to make your revenue greater than your expenses. That way you have money left over to save.

Bringing It All Together

What's the relationship between expenses, revenue, assets and liabilities? Let's revisit the formula for net worth:

Net Worth = Assets – Liabilities

Revenues and expenses can turn into assets and liabilities.

If you spend exactly as much money as you take in, your net worth won't be affected.



Revenues that aren't spent right away can be saved. Savings is an asset. So your net worth will increase. If expenses aren't paid for right away, you owe money. This is a liability. Your net worth will decrease. But an expense can also become an asset. An investment is an example of an expense that turns into an asset.

Too many liabilities and not enough assets can be a big problem. It means you have a negative net worth, which is not a strong financial position to be in.

Real Life Examples

Example 1: Buying a Car

- The purchase of a car can be all three: an expense, an asset and a liability.
- A single car payment is an expense.
- Filling the car with gas is an expense.
- A car is an asset, if you can sell it for more than you owe on it.
- A car loan is a liability.
- A repair on the car that you will eventually need to spend money to make is also a liability.

Example 2: Using a Credit Card

If you use a credit card to buy something, the credit card balance is a liability. If you pay off the balance as soon as the bill comes, this isn't a bad thing. You get rid of the liability. But if you just pay the minimum on a credit card balance, it continues to be a liability, and you incur an expense every month until the balance is paid off. As a matter of fact, if you don't pay off a credit card balance in full, interest can cause the liability to linger for years.



Module 1 – Discussion

Think of ways the following events can be expenses, assets and liabilities:

Going to College

Revenue:

Expense:

Asset:

Liability:

Buying a CD

Revenue:

Expense:

Asset:

Liability:

Opening a Checking Account

Revenue:

Expense:

Asset:

Liability:

Loaning a Friend \$5

Revenue:

Expense:

Asset:

Liability:



Module 1–Activity

Expense, Revenue, Asset or Liability

Decide if each of the following is an example of an expense, an asset or a liability.

1. An automobile loan	Expense	Asset	Liability
2. Dinner at a restaurant	Expense	Asset	Liability
3. A paycheck	Expense	Asset	Liability
4. The \$20 you were paid for babysitting	Expense	Asset	Liability
5. The \$20 that you owe a friend	Expense	Asset	Liability
6. A birthday check from your grandmother	Expense	Asset	Liability
7. A cell phone bill	Expense	Asset	Liability
8. Your video game system	Expense	Asset	Liability
9. Your CD collection	Expense	Asset	Liability
10. A \$5 bill you found on the ground	Expense	Asset	Liability
11. Your weekly allowance	Expense	Asset	Liability
12. An apartment lease	Expense	Asset	Liability
13. A savings account	Expense	Asset	Liability
14. A checking account	Expense	Asset	Liability
15. A football card collection	Expense	Asset	Liability
16. The purchase of a burrito	Expense	Asset	Liability
17. Credit card debt	Expense	Asset	Liability
18. A U.S. Treasury Bond	Expense	Asset	Liability
19. A DVD Rental	Expense	Asset	Liability
20. A college loan	Expense	Asset	Liability