

THE AUTOMATED PERSONAL ASSISTANT

Chapter 2.4

What is a Balance Sheet

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What is a Balance Sheet?

A balance sheet is an accounting term that helps you to understand your financial position at a point in time. The balance sheet is an essential tool used by executives, investors, analysts, and regulators to understand the current financial health of a business.

The balance sheet can help users answer questions such as whether there is a positive net worth or whether there is enough cash and short-term assets to cover the obligations.

In your case, it is very useful for you to know your financial position so that you can plan your financial goals (for example, save more money every month) and prioritise your financial planning (for example take out more life insurance cover if needed).

A great idea is to do a balance sheet setting out your financial position should something happen to you right now. In order to set up this type of balance sheet, it is important to understand the different elements of what it comprises.

Assets

Are what you own (these are a good thing) – and include your properties, cash in the bank, investments, household contents, jewellery, motor vehicles.

Assets can be divided between non-current (or long-term) (realised over a period of greater than one year for example property, equipment, investments) or short-term (one year or less for example cash at the bank and precious metals.)

For the purposes of the balance sheet that you are setting up (to understand where you will end up should something happen to you, your assets also include your pension and death benefits from your employer, and pay-outs from life insurance policies.

Liabilities

Are what you owe on those things that you own. These are not necessarily a bad thing, but you will have to settle these liabilities upon your death. These liabilities include – bank overdrafts, outstanding amounts on your bond if you do not have bond cover, car loans, credit card balances, clothing accounts, etc.

Non-current liabilities are those that will take longer than a year to settle (for example your mortgage/bond) and current (usually less than a year – for example your clothing account or credit card).

Equity

Is what is the difference between assets and liabilities. For our purposes, its is the residual of your financial position, and if you are in a positive net worth position (where what you own is greater than what you owe) well done!

An example (Assets = Equity + Liabilities)

ASSETS		
Cash available within 48 hours		
My Personal Bank account	25 000	
Funeral Benefit from Employer	50 000	
Silver coins (physical coins)	20 000	95 000
Death benefits from my employer		
Death benefit from short-term insurance policy	300 000	
Retirement Fund	69 000	
Medical Pension Fund	20 000	
Shares from long term incentive plan	45 000	389 000
Cash investments		
Term Deposit (30 day notice deposit)	150 000	150 000
Current assets		
Household contents	175 000	
Life insurance policy	350 000	175 000
Fixed/Long-term assets		
Primary Residence	1 250 000	
Investment Property 1	750 000	
Investment Property 2	650 000	
Motor Vehicle	42 000	
Shares - publicly listed	256 000	2 948 000
TOTAL ASSETS	3 757 000	

EQUITY	
Assets less Liabilities	2 578 500

LIABILITIES		
Settled upon death		
Bond - Primary Residence	890 000	
Bond - Investment Property 1	50 000	
Bond - Investment Property 2	169 000	
Credit card - Freedom Credit	15 000	
Clothing accounts - Jacks Shop	4 500	1 128 500
Not settled upon death		
Bank overdrafts - personal bank account 2	50 000	50 000
TOTAL LIABILITIES	1 178 500	

Complete your Financial Plan

After completing the balance sheet as best you can, look at all your expenses (for example funeral costs, transfer fees for property, cash you would like to bequeath to beneficiaries), taxes (for example capital gains tax) and liabilities remaining upon death and determine if your cash sources are sufficient for this. Create the Financial Plan template as described in section 2.5 of my book.

If not, consult with your financial advisor on your options.

Let's chat on any aspect of this bonus

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