Module 4 Exercise: Personal Assets and Liabilities

The key concepts in this module are the components of a balance sheet — assets, liabilities, and net assets. Both assets and liabilities can be:

- Short-term (current): expected to be used or paid back within one year.
- Long-term: held or owed for more than one year.

This exercise helps you recognize, classify, and analyze your own household assets and liabilities, and understand how everyday transactions affect your financial position.

In this exercise, you will take inventory of your household assets and liabilities and prepare a personal balance sheet that shows what you own and what you owe. You will follow the steps and worksheets below to practice recognizing and classifying assets, liabilities, and net assets. You will also analyze several hypothetical transactions to see how each one affects your financial position, which will help you understand whether your net worth increases or decreases after each transaction.

Privacy Note: For privacy reasons, do not include your actual financial numbers, and do not paste them into an AI tool. You may use fake or approximate amounts — the goal is to understand the concepts and relationships among assets, liabilities, and net assets.

Step 1: Create Your Personal Balance Sheet

1. List your assets, including
   a. Current assets: cash, bank accounts, investments, etc.
   b. Long-term assets: a home you own, car, furniture, equipment, etc.
2. List your liabilities, including
   a. Current liabilities: unpaid bills for goods or services already received (e.g., credit card balance).
   b. Long-term liabilities: outstanding loans, car loan, or mortgage, etc.
3. Calculate your net assets (net worth) using the equation: Net Assets = Assets − Liabilities.
4. Put your assets, liabilities, and net assets in Worksheet #1, and check that your balance sheet balances: Assets = Liabilities + Net Assets.

Step 2: Recognizing New Transactions

Below are 10 everyday transactions. For each one, identify how it affects your assets, liabilities, and net assets.

1. Pay down mortgage/loan: You use $3,000 from your bank account to make an extra payment on your home mortgage or your loan.
2. Use a credit card for a purchase: You charge $500 on your credit card to buy a gift for a family member.

3. Receive and invest lottery winnings: You win $5,000 in a lottery and immediately deposit it into a mutual fund investment account.
4. Earn investment income: Your $5,000 mutual fund investment generates $500 in returns by the end of the year.
5. Buy furniture on credit: You purchase new living room furniture for $900, receive the invoice, but have not paid for it yet.
6. Visit urgent care: You pay a $30 copay at the time of the urgent care visit, but will owe the remaining $270 on the healthcare service bill.
7. Prepay for a service: You prepay $360 for next year's gym membership, even though you will not begin using it until next year.
8. Provide a service and collect payment later: You mow lawns for customers worth $500, but they have not paid you yet.
9. Receive a paycheck: You receive your monthly salary of $5,000 and deposit it into your checking account.
10. Buy a new car: You purchase a new car, paying $3,000 down in cash and taking out a $20,000 car loan for the remaining balance.

For each transaction, use Worksheet #2 to show how it affects your assets, liabilities, and net assets. The first two rows provide examples to guide you. After completing all transactions, check whether your final results still balance according to the accounting equation: Assets = Liabilities + Net Assets.

You may use an AI tool to check your understanding of each transaction — did you recognize its effects correctly? But decide each one yourself first, and treat the tool's answer as something to verify, not something to copy.

Step 3: Write-up

In a short write-up, respond to the following questions:

1. **Net assets and balance:** Do you have positive or negative net assets? Do you expect your assets or liabilities to increase or decrease in the next year? Can you balance your accounting equation (Assets = Liabilities + Net Assets)? *(The equation should always balance — if it doesn't, recheck your inputs.)*
2. **Composition of assets and liabilities:** What are your largest assets and liabilities? Are most of them current (short-term) or long-term?
3. **Changes in financial position:** What types of activities tend to increase your assets, and what types decrease them? What activities increase your liabilities, and which ones reduce them? How is your net assets (also called net position or net worth) affected by asset and liability changes?
4. **Reflection on financial management:** How can thinking about assets and liabilities in this way help you improve your personal financial management?

What to Submit

Submit a one-page write-up responding to the questions in Step 3, along with your completed Worksheets #1 and #2. You may use fake or approximate numbers — do not include real personal financial details. Focus on demonstrating your understanding of the concepts, not on providing actual figures.

AI-use disclosure: At the end of your write-up, note which tool you used, if any.

Worksheet #1: Personal Balance Sheet

	Accounts	Approx. Value ($)
Assets		
Current Assets	Cash	
	Checking Account	
	Savings Account	
	Investments (stocks, funds, etc.)	
	…(add rows as needed)	
Long-Term Assets	Home (if owned)	
	Vehicle	
	Furniture/Equipment	
	…(add rows as needed)	
	Total Assets:	$
Liabilities		
Current Liabilities	Credit Card Balance	
	Utility Bills Due	
	Medical Bills	
	…(add rows as needed)	
Long-Term Liabilities	Car Loan	
	Student Loan	
	Mortgage	
	…(add rows as needed)	
	Total Liabilities:	$
Net Assets		

Worksheet #2: Transactions

Example 1: You use $2,000 from your bank account to pay your rent.

Example 2: You borrow $3,000 from your bank.

	Assets	Liabilities	Net Assets	Is it balanced?
Example 1: rent	Bank Account: −$2,000		−$2,000	Yes
Example 2: borrowing	Cash: +$3,000	Bank loan: +$3,000	No change	Yes
1) Pay down loan				
2) Credit card purchase				

	Assets	Liabilities	Net Assets	Is it balanced?
3) Win lottery and invest				
4) Earn investment returns				
5) Buy furniture on credit				
6) Visit urgent care				
7) Prepay for a service	Prepaid service			
8) Provide service	Accounts receivable			
9) Receive paycheck				
10) Buy a car and take a car loan				
Total changes				