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Calculating Your Net Worth

Many times when we think of net worth, we think of people who have a lot of money. However, all of us have a net worth, big or small. A net worth is basically a look at where we stand financially at any given time. Our net worth is made up of our assets and liabilities and is determined by subtracting our liabilities from our assets. It is recommended that a net worth calculation be done each year to see how we are doing and to determine if we have increased, decreased or remained level in our financial status.

Assets

Assets include all the things you own. Assets can be broken down into three basic categories:

- ~ **Monetary** – these include cash money you have in your checking and savings accounts, wallet or purse, coin jar, etc., as well as products that can easily be converted into cash, such as Certificates of Deposit (CDs)
- ~ **Tangible** – these include all the things you own, from your car to your bed to your clothes
- ~ **Investment** – these include things such as stocks, bonds, Individual Retirement Accounts (IRA's), 401(k)s, and other investment accounts, as well as your home, if you own it

Liabilities

Liabilities include all the things you owe. Liabilities fall into one of two categories:

- ~ **Short term/immediate** – these include the monthly payments you make toward things such as cars, your home, cable, phone, water, etc.
- ~ **Long term** – these include the balances of any loans you owe.

Some liabilities may fall into both categories. For example, if you have a car loan, you have both a monthly payment and a remaining balance after each monthly payment is made

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The first step in calculating your net worth is to determine the value of your assets. Monetary assets are easy to determine. Simply look at your account balances and count up all your bills

or coins, plus get a current value of any CDs or other savings type of accounts that can be easily converted to cash. Investment assets are fairly easy to determine also. Just get a current statement of all of your investment accounts. If you own your home, you can have it appraised or you can use an estimated value based on similar home sales in the area. Tangible assets will take a bit longer to calculate since the value of the things we own don't necessarily equal what we paid for them. Some tangible assets, such as cars, have tools that can help determine values (NADA Guide, Kelly Blue Book, Edmunds, etc); others, such as jewelry and collections, can be appraised. For the most part, though, there is no one right way to determine the value of our tangible assets. Most items can be given a value based on the Fair Market Value for similar items in the same condition. Remember, you cannot use the amount you paid for the item, only the amount you would get should you choose to sale the item. You can also use the insured amount for the contents portion of your homeowners or renters policy, adjusting up or down to a value you believe to be true.

The second step in calculating your net worth is to determine the amount of your liabilities. If you are keeping a spending plan, a.k.a. budget, you should know what you monthly short term/immediate liabilities are. If not, simply add up your current months short term liabilities and use that amount. Long term liabilities can be determined by checking balances of any long-term loans you have.

Once you have determined both you liabilities and your assets, simply subtract the amount of your liabilities from the value of your assets to get your net worth. Of course, the value may not be 100% accurate, but it will give you a good idea of where you stand financially. If the value is positive, great. Keep up the good work. If your net worth is negative, look for ways to move it to the positive side. This can be accomplished by either increasing your assets or decreasing your liabilities, or maybe a combination of both.

After you complete your first net worth statement, file it away. When you do your next calculation, simply take what you had and adjust as needed. For example, if you sold some assets, subtract them from the value. If you added any new assets, add them to it. You may also adjust values to account for inflation or deflation. Since the initial work was done the prior year, the next year should be easier to do.

There are many worksheets and website available to help with calculating your network. The Department of Family, Youth & Community Sciences offers a net worth calculators at: <http://fycs.ifas.ufl.edu/younginvestor/java/NetWorth.html>. Others can be found by searching for "net worth calculator" in your favorite browser.

Once you have an understanding of where you stand financially as a whole, you can start working on your monthly spending plan to devise ways to increase your net worth.