

Lesson 1

Budget to Save—The Balance Sheet

Lesson Description

This lesson begins with dispelling common myths about millionaires through the interactive “Millionaire Quiz.” Students then have an opportunity to give their opinions of wealth in a brainstorming activity that culminates in a formalizing of the definition of wealth through the equation of “assets – liabilities = net worth.” Using a variety of interactives, students will further distinguish between wealth-building and depreciating assets and finalize the discussion by using an interactive balance sheet to calculate and visualize how wealth is created.

National Standards in K-12 Personal Finance Education (www.jumpstart.org)

Planning and Money Management

Standard 1: Develop a plan for spending and saving.

Standard 2: Develop a system for keeping and using financial records.

Standard 6: Develop a personal financial plan.

Instructional Objectives

Students will:

- Define wealth using the concept of net worth.
- Measure wealth using a balance sheet.
- Distinguish between wealth-creating assets and other types of assets.

Time Required

One 50-minute class period

Materials Required

- SmartBoard (optional) *If using a computer and projector, please click when procedure says touch.*
- Interactive PDF file
- Copies of Handout 1: Real Life Balance Sheets, cut apart
- Copies of Handout 2: What Does It Mean to Be Wealthy? (optional)

Warning

The first time you teach the lesson, save a master copy to your computer or a flash drive. If you do not, you will not be able to save notes from each class. Before each class, reload the master copy of the notebook file to be certain that all of the elements on each page are ready for use.

Procedure

1. **Display Slide 1.** Tell students that the topic of the lesson is wealth.
2. **Display Slide 2.** Review the instructional objectives for the lesson.
3. **Display Slide 3.** As a class, work through “The Typical Millionaire” quiz. Use the quiz to dispel myths about millionaires.
 - Advance the questions by hitting “true” or “false.”
 - After you select the answer, a slide telling you whether you were correct or incorrect will display, along with supporting text explaining the truth of the scenario.

- 4. Display Slide 4.** Have students brainstorm answers to the phrase “Wealth is...” Collect responses on the board. Answers will vary but might include:
- Wealth is lots of money.
 - Wealth is having nice/expensive things.

Guide the discussion to the idea that simply having “things” or money does not make you wealthy if those things are accompanied by debt. Tell students that these lessons will examine a systematic approach to measuring and building wealth.

- 5. Display Slide 5.** Use the interactive on the slide and the information below to discuss net worth.
- Touch “Assets” to display the definition and examples of assets. Ask students for other examples.
 - Touch “Liabilities” to display the definition and examples of liabilities. Ask students for other examples.
 - Touch “Net Worth” to display the definition of net worth. Explain that net worth is a measure of wealth and that increasing net worth is the way to build wealth.

Use the equation to discuss the two ways that a person can build wealth: increasing total assets or reducing total liabilities.

- 6. Display Slide 6.** Present the students with the following lists and ask them to categorize the items as assets or liabilities. If using an interactive whiteboard, use the pen tool to write the objects in the appropriate box. If not, use the text tool in the interactive pdf to type the items in the correct box.
- Assets: Car, House, Checking Account, Savings Account, Company Stock
 - Liabilities: Mortgage, Credit Card Balance, Student Loan

Intellectual property, such as patents, copyrights and trademarks are also assets if they have market value. For more information, see the lesson “What Is an Entrepreneur?” from the Everyday Economics series.

- 7. Display Slide 7 and 8.** Divide the class into eight groups. Give each group one section of the “Real Life Balance Sheets” activity, Handout 1. Allow each group to read the description and complete the balance sheet. Have groups come to the board and present their results. Use the pen tool or the pdf text tool to record student responses.

- 8. Display Slide 9.** Use the interactive on the slide and information below to explain the difference between wealth-creating assets and depreciating assets.
- Touch the car graphic to display information about and examples of depreciating assets.
 - Depreciating assets are assets that decrease in value over time.
 - Touch the stock graphics to display information about and examples of wealth-creating assets.
 - Wealth-creating assets, also called appreciating assets, generally increase in value over time or provide a rate of return.

- 9. Display Slide 10.** Use the interactive balance sheet on the slide to lead a class in sorting assets and liabilities and calculating net worth. Use the text below to set up the activity.
- Sandra is a high school senior. By paying off her car and starting a savings account, Sandra believes that she is well on the way to wealth creation.
 - Drag and drop each entry into the appropriate category on the balance sheet.
 - Wrong answers will display an “X.”
 - Once all entries have been sorted, touch the “calculate” button to calculate the total assets, liabilities and net worth for Sandra.

Closure

1. What are assets and liabilities?
Assets can include anything an individual or business owns that has commercial or exchange value. Liabilities are the money that an individual or organization owes. Liabilities are the same as debt.
2. What is net worth?
It is the value of a person's assets minus the amount of their liabilities. It is "what you own" minus "what you owe." It is a measure of wealth.
3. How can a person build wealth?
A person can build wealth by increasing net worth. This can be done by increasing the value of the person's assets or decreasing the value of the person's liabilities or both.
4. How are wealth-creating assets different from other assets? What are some examples?
Wealth-creating assets appreciate in value over time, while other assets depreciate. A car is not a wealth-creating asset but a savings bond is.
Note to teacher: Remind students that many factors contribute to the rising and falling of an asset's value, such as overall market conditions and conditions of the asset itself.
5. How can a person use a personal balance sheet as he or she seeks to build wealth?
A balance sheet is the tool that one can use to measure wealth. As net worth on the balance sheet increases, wealth increases.

Assessment

1. Have students work independently to complete Handout 2: What Does It Mean to Be Wealthy?

Handout 1

Real-Life Balance Sheets

John

John is a 28-year-old father of two. He lives in a house that he bought four years ago, taking out a 30-year mortgage. He and his family have two cars and owe payments on one for the next two years. He has a retirement account that he has been contributing to since he was 22. He has a loan that is not paid from his college education at a private school. He has a college fund for both of his kids.

Assets	Liabilities

Gwen

Gwen is a 20-year-old college sophomore. She works part time to pay for school but still contributes \$25 to her savings account each month. She had to put her books on her credit card this semester but she hopes to pay them off before the semester ends. She drives a 1999 sedan that is paid for. She has been collecting vintage dolls since she was a little girl and has quite an extensive collection. She borrowed \$1,300 from her aunt to pay for her summer study abroad and agreed to pay her back with 5 percent interest.

Assets	Liabilities

Sam

Sam is a 38-year-old engineer at a publicly traded firm. He makes good money and recently purchased a boat. His bonus last year was 500 shares of company stock. He drives a new car, lives in a luxury apartment near the office and travels when he has time off. He puts all his monthly expenses on a credit card but pays it off every month. When he bought the boat, he financed it for three years, the shortest term available at the time. He broke his leg skiing two years ago and has a few outstanding medical bills. He also started a business with his brother and took out a Small Business Administration (SBA) loan to finance the startup.

Assets	Liabilities

Sarah

Sarah is a rising star at the company where she works. She is a hard worker who put herself through college with the combination of a job and some loans. She wears designer suits bought on her credit card, which she has been unable to pay off completely. She isn't the best saver, but she does maintain a small savings account at a local bank. She inherited her grandmother's jewelry collection a few years ago, including some pretty valuable rings and necklaces.

Assets	Liabilities

Jason

Jason is a 72-year-old grandfather. He has been retired for five years and lives off his pension, Social Security and retirement accounts from his working days. He owns his house free and clear. He recently had surgery and owes some for medical bills. He also took out loans to pay for his youngest son's college. He has an RV that he uses to travel around with his wife and visit the grandkids. He financed it for five years and has two years left on the loan.

Assets	Liabilities

Judy

Judy is a 41-year-old teacher. She went to a private school known for its teacher education program and got both bachelor's and master's degrees in education. Her undergraduate was paid for, but she took out college loans to pay for her master's degree. She owns a car, and she has 12 years remaining on her home mortgage. She had a water leak last year and took out a home equity loan to pay for the repairs.

Assets	Liabilities

Steve

Steve is a freelance app developer. He has developed games for the iPhone, which enabled him to pay cash for a small condo and a new car. He also has developed and copyrighted a mobile app that allows people to track the movement of the continents in real time. Because of the nature of his work, he has recently built credit card debt to pay for living expenses until he gets another job. Right now he has a balance on two different cards. He recently upgraded the television and sound system in his house and took advantage of the retailer's 36-month no-interest offer.

Assets	Liabilities

Christine

Christine is the lead singer of a band. Although the band doesn't pay all the bills, things are looking up. Over the years, she has amassed a substantial guitar collection. She rents an apartment but does own the band's bus for getting to gigs. She has a checking account and savings account at a local bank. She uses her personal credit card to support the band's travel and equipment, and it usually carries a balance of a few thousand dollars.

Assets	Liabilities

Suggested Answers

Real-Life Balance Sheets

John

John is a 28-year-old father of two. He lives in a house that he bought four years ago, taking out a 30-year mortgage. He and his family have two cars and owe payments on one for the next two years. He has a retirement account that he has been contributing to since he was 22. He has a loan that is not paid for from his college education at a private school. He has a college fund for both of his kids.

Assets	Liabilities
House	Mortgage
Two cars	Car loan
Retirement account	College debt
College fund for kids	

Gwen

Gwen is a 20-year-old college sophomore. She works part-time to pay for school but still contributes \$25 to her savings account each month. She had to put her books on her credit card this semester but she hopes to pay them off before the semester ends. She drives a 1999 sedan that is paid for. She has been collecting vintage dolls since she was a little girl and has quite an extensive collection. She borrowed \$1,300 from her aunt to pay for her summer study abroad and agreed to pay her back with 5 percent interest.

Assets	Liabilities
Savings account	Credit card
Car	Money owed to aunt
Dolls	

Sam

Sam is a 38-year-old engineer at a publicly traded firm. He makes good money and recently purchased a boat. His bonus last year was 500 shares of company stock. He drives a new car, lives in a luxury apartment near the office and travels when he has time off. He puts all his monthly expenses on a credit card but pays it off every month. When he bought the boat, he financed it for three years, the shortest term available at the time. He broke his leg skiing two years ago and has a few outstanding medical bills. He also started a business with his brother and took out a Small Business Administration (SBA) loan to finance the startup.

Assets	Liabilities
Boat	Boat loan
Company stock	Medical bills
Car	SBA loan
Business	

Sarah

Sarah is a rising star at the company where she works. She is a hard worker who put herself through college with the combination of a job and some loans. She wears designer suits bought on her credit card, which she has been unable to pay off completely. She isn't the best saver, but she does maintain a small savings account at a local bank. She inherited her grandmother's jewelry collection a few years ago, including some pretty valuable rings and necklaces.

Assets	Liabilities
Designer suits	Credit card
Savings account	College loans
Jewelry	

Jason

Jason is a 72-year-old grandfather. He has been retired for five years and lives off his pension, Social Security and retirement accounts from his working days. He owns his house free and clear. He recently had surgery and owes some for medical bills. He also took out loans to pay for his youngest son's college. He has an RV that he uses to travel around with his wife and visit the grandkids. He financed it for five years and has two years left on the loan.

Assets	Liabilities
Retirement account	Medical bills
House	School loans for son
RV	RV loan

Judy

Judy is a 41-year-old teacher. She went to a private school known for its teacher education program and got both bachelor's and master's degrees in education. Her undergraduate was paid for, but she took out college loans to pay for her master's degree. She owns a car, and she has 12 years remaining on her home mortgage. She had a water leak last year and took out a home equity loan to pay for the repairs.

Assets	Liabilities
Car	Mortgage
House	Home equity loan
	Student loans

Steve

Steve is a freelance app developer. He has developed games for the iPhone, which enabled him to pay cash for a small condo and a new car. He also has developed and copyrighted a mobile app that allows people to track the movement of the continents in real time. Because of the nature of his work, he has recently built credit card debt to pay for living expenses until he gets another job. Right now he has a balance on two different cards. He recently upgraded the television and sound system in his house and took advantage of the retailer's 36-month no-interest offer.

Assets	Liabilities
Condo	Credit card debt
Car	Store-financed home theater
Copyright mobile app	

Christine

Christine is the lead singer of a band. Although the band doesn't pay all the bills, things are looking up. Over the years, she has amassed a substantial guitar collection. She rents an apartment but does own the band's bus for getting to gigs. She has a checking account and savings account at a local bank. She uses her personal credit card to support the band's travel and equipment, and it usually carries a balance of a few thousand dollars.

Assets	Liabilities
Guitar collection	Credit card
Band bus	
Checking account	
Savings account	

Handout 2: **What Does It Mean to be Wealthy?**

Match the following terms to the correct definition.

_____ 1. Assets	a. The difference between the total assets and total liabilities of an individual
_____ 2. Balance sheet	b. Assets that add to net wealth
_____ 3. Depreciation	c. The loss of value of an asset over time
_____ 4. Liabilities	d. Anything an individual or business owns that has commercial or exchange value
_____ 5. Net worth	e. A financial statement showing a snapshot of the assets, liabilities and net worth of an individual
_____ 6. Wealth-creating assets	f. Money an individual or an organization owes.

Match the following terms to the correct definition.

- Name two assets that are likely to depreciate in value over time.
- What happens to wealth if money is borrowed to purchase consumable items? Refer to the parts of a balance sheet in your answer.
- What conditions would allow a house to be considered a wealth-creating asset?
- Why might a U.S. Treasury security be considered a wealth-creating asset?

What generally happens to net worth if you do the following action? Circle *I* for increase and *D* for decrease.

- I** or **D** Invest in a 401(k) plan (retirement)
- I** or **D** Buy a car and make a small down payment
- I** or **D** Buy concert tickets with your credit card
- I** or **D** Spend money on your fall wardrobe
- I** or **D** Buy a Treasury security

Suggested Answers

Handout 2: **What Does It Mean to be Wealthy?**

Match the following terms to the correct definition.

<u> d </u> 1. Assets	a. The difference between the total assets and total liabilities of an individual
<u> e </u> 2. Balance sheet	b. Assets that add to net wealth
<u> c </u> 3. Depreciation	c. The loss of value of an asset over time
<u> f </u> 4. Liabilities	d. Anything an individual or business owns that has commercial or exchange value
<u> a </u> 5. Net worth	e. A financial statement showing a snapshot of the assets, liabilities and net worth of an individual
<u> b </u> 6. Wealth-creating assets	f. Money an individual or an organization owes.

7. Answers will vary but might include cars, computers, video games, clothes, etc.
8. When an item is consumed, it does not increase the total value of assets owned. When money is borrowed to purchase consumable items, liabilities increase. If total assets remain the same while total liabilities increase, net worth decreases.
9. A house is a wealth-creating asset when it appreciates in value over time. Also, if a house maintains its value as the mortgage is paid off, net worth will increase.
10. A U.S. Treasury security is backed by the U.S. government and is generally considered to be one of the most secure assets that one can own. Interest on these securities provides a return, thus classifying them as wealth-creating.
11. **I** Invest in a 401(k) plan (retirement)
12. **D** Buy a car and make a small down payment
13. **D** Buy concert tickets with your credit card
14. **D** Spend money on your fall wardrobe
15. **I** Buy a Treasury security