



Audio Transcript

Course: Time To Change
Session: 2
Title: Assets and Liabilities

There are lots of financial terms that it is useful to be aware of when considering our own personal finances.

The first of these is assets and liabilities.

Assets are things that we own or are owed to us. In our personal finances these are likely to be things like:

- a house
- a car
- savings and investment
- our bank balance (if we have money in the bank)

We may also have a hobby that involves assets, for example stamp collecting, antiques, collectible figures, first edition or comic books.

If we are owed money by someone and expect to have it returned to us, we can also consider this an asset.

Our pensions are also an asset but we wouldn't include them in such a list as we cannot usually realise those assets until retirement or thereabouts.

Assets have value and can realise money when we sell them.

There are also a number of other items that do have some value - e.g. our television, computer, furniture, clothes etc. If we needed to, we could sell them to raise money, or if they were damaged, destroyed or stolen, our insurance company would put a value on them and provide recompense or replace them. However, our major assets are those listed earlier on rather than these other items, so we are unlikely to list them among our major assets.

Liabilities on the other hand are things that we owe, in particular:

- mortgage on a house



Audio Transcript

- bank or other finance loan
- our bank balance (if we are overdrawn)
- any other sums that we owe (perhaps to a family member or friend)

Liabilities could also include any sums of money that we owe on a contract. For example, if we have taken out a 24 month mobile phone contract for £25 per month, and we are 6 months into the contract, we still have 18 months left on that contract, so $18 \times £25$, or £450. We wouldn't list that among our liabilities, but it is worth being aware of it nonetheless, in that it is a financial commitment.

From our assets and liabilities, we can deduce our financial position, using a simple formula:

Assets minus liabilities = financial position

This may be a positive number, or it may be a negative number. A negative number isn't necessarily bad, but ideally you should look towards moving it towards a positive number.

Note that some assets, such as the value of a house, may at the same time, involve a liability, for example, the mortgage on the house.