What is a Personal Financial Statement (PFS)?

Individuals or couples use a Personal Financial Statement to show what they own and owe on a specific date.

The PFS lists all assets that can be turned into cash exchanged or sold or have future economic value.

On a PFS, assets are valued at MARKET VALUE, which could be sold on that day in an arms-length transaction.

The PFS lists all Liabilities, which is anything owed as of that date.

The assets minus the liabilities equal the individual or couple's net worth.

What are examples of Assets and Liabilities found on a PFS?

ASSETS

- Cash = checking, savings, money market accounts (short-term deposits)
- Marketable Securities, stocks, and bonds traded on a public market
- Notes Receivable – when a person owes you money
- Retirement Accounts – 401K, IRA, KEOGH, and ROTH IRA.
- Tangible Property = vehicles, collectables, art, furniture
- Real estate
- Ownership in non-public companies, including businesses owned by a person.

LIABILITIES

- Credit Card Debt
- Taxes due
- Interest due on Debt not included elsewhere
- Notes Payable
- Personal loans –
- Student Loans – subsidized and unsubsidized
- Real Estate Mortgages or Home Equity Loans balance due (not the original amount borrowed)

Is there an order to list assets or liabilities?

Yes, assets that are most easily turned into cash are listed first. Those with restrictions (Security Deposits) or not easily liquidated (real estate) will be listed lower down.

Liabilities are listed with those that are due soonest on top. Sometimes, a liability can be broken into two parts, with the portion due in the coming 12 months listed as a "Current Liability" and the portion due after 12 months as a "Long Term Liability" even though they are one debt.

What is "Net Worth?"

On a PFS, the assets' total value MINUS the liabilities' total value is called NET WORTH.
Net Worth is listed on the last line of a PFS.

What other conventions are typical for a PFS?

A PFS will always have the names of the individuals at the top. In general, if a person is married, they are expected to report the assets and liabilities for both parties regardless of how the asset or liability is titled.

A PFS will always have a date. As values change, knowing that the statement was made on a specific date is essential.

A PFS is often signed by the Individual or Couple making the representations.

Does a PFS always reflect an accurate picture of the Net Worth?

No, often, the market value of an asset is subjective, and thus, it could be inflated or deflated by the person preparing the PFS. This can be done deliberately to make the person's net worth look better or worse for a specific reason, but it can also be done because the person preparing the PFS does not know the proper value for a listed item. Of course, deliberate misrepresentation can have serious consequences.

Additionally, costs may be associated with liquidating an asset, including selling costs and taxes, which are not reflected on a PFS.

For example, while it is traditional to list the market value of a retirement account in a PFS, the account may be subject to early withdrawal penalties, income tax, and forfeited employer match– those factors are not on the PFS)

What is a Balance Sheet, and How does it differ from a PFS?

A Balance Sheet is the form businesses use to display essentially the same things as a PFS. Thus, it lists everything the company owns that has value and everything the business owes.

Is the balance sheet layout the same as that of a PFS?

No,

- On a Balance sheet, instead of using the term Net Worth, the term used is Owners Equity. That Equity can be further subdivided, but in essence, it is the value of the business.

- The layout is a little different – While assets are listed similarly to a PFS, the lower half of the Balance Sheet lists Liabilities and Owners Equity together. The key formula is that the assets must always equal the liabilities and owners' equity on a balance sheet.

Are there items on a Balance Sheet that would not be on a PFS?

Yes,

Business Assets might include:

- Accounts Receivable – money a customer owes to the business
- Inventory (supplies)
- Prepayment of Expenses, especially insurance premiums or taxes
- Property Plant Equipment (Land, Building, Machinery, Equipment)
- Patents & Trademarks, Trade Secrets, Permits (intangible asset)
- Goodwill (intangible)

Business Liabilities might include:

- Accounts payable – money owed to vendors for invoiced items
- Interest payable – listed separately from principal due depending on the accounting method
- Taxes payable (income tax, sales tax, corporate tax)
- Notes payable - loans for specific items generally secured by equipment
- Capital Leases (where the business has committed to a long-term lease with specific payments) AND ….
- Contingent liabilities are when there is a strong likelihood they will become due and have a cost.
  - Product Warranties
  - Pending Lawsuits

Also, distinguishing between "Current Liabilities" due within the next 12 months and "Long Term Liabilities," which are due more than a year later, is more common on a Balance Sheet than a PFS.

How else is a Balance Sheet different than a PFS?

Generally, assets on a Balance Sheet are listed at their original cost, and the balance sheet may also show the amount the asset has been "depreciated" based on tax law. Thus, assets on a Balance Sheet may not reflect market value.

Other issues to discuss

- What is the purpose of the Financial Statement?
- What are acceptable modifications?
- Minority Discounts
- Marketability Discounts
- Subordination of Debt – first position, second position
- Depreciation Methods – straight line, accelerated