



Financial Literacy with Mr. 401(k)
Spring Term 2026
April 16, 2026

Owning & Owing Stuff

Class 14: Liabilities – Understanding and Managing What You Owe



Important Financial Terms Recap



How money flows:

 **Income**

Making Money

Earned, passive, or portfolio

—

 **Expenses**

Spending Money

Needs, wants, and taxes

=

 **Profit (or Loss)**

What's left over after spending

Positive = profit | Negative = loss

What you're worth:

 **Assets**

The Stuff You Own

Cash, investments, property

—

 **Liabilities**

The Stuff You Owe

Loans, debts, bills due

=

 **Equity (Net Worth)**

Your true financial position

The goal: grow this number over time

What Is a Liability?



Liability

A liability is anything you **owe** that has **value**. Liabilities are obligations or promises to pay someone back. They can be small, like money borrowed from a friend, or large obligations, like student loans or a home mortgage.

You Owe It

A liability belongs to the person or business that borrowed. If someone lent you money, that debt is your liability.

It Has a Cost



Most liabilities come with interest, which is the price you pay for borrowing someone else's money. You're "renting" their money.

It Must Be Repaid

Liabilities require regular payments (debt service). Missing payments can damage your financial health.

Anyone Can Owe Liabilities



People

You might owe for a phone plan, student loans, or money borrowed from friends or family.



Governments

Governments borrow by issuing bonds to fund infrastructure, schools, military, and public services.



Corporations

Businesses borrow to buy equipment, open new locations, and fund operations.



Banks

When you deposit money in a bank, the bank owes it back to you. Your deposit is the bank's liability!

Same Transaction, Two Perspectives


How assets and liabilities flip depending on who you are



The Customer

 **Bank Deposit = Customer's ASSET**

Money you own, held at the bank

 **Bank Loan = Customer's LIABILITY**

Money you owe back to the bank



The Bank

 **Customer Deposit = Bank's LIABILITY**

Money the bank owes back to you

 **Customer Loan = Bank's ASSET**

Money owed to the bank



The same transaction creates an asset for one party and a liability for the other!

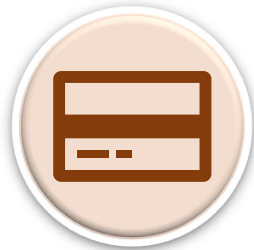
We'll explore how banks work in more detail during our Banking class.

Interest Recap


the cost of borrowing or the reward for saving



If Borrowing...




The **extra amount** you pay to a person or company that let you borrow their money.

Interest is the **COST**
of borrowing 

If Saving or Investing...



The **extra amount** you receive for letting someone else use your money.

Interest is the **REWARD**
for saving 



Class Discussion

What are some examples of liabilities that people might owe? Why might people borrow money?

Liabilities Teens May Experience



Allowance Advances

Money borrowed from parents in advance of a scheduled allowance



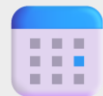
Sports Club Dues

Outstanding dues or fees for club sports, leagues, or teams



Library Fines

Fines on overdue library books or unreturned materials



Payment Plans

Payment plans to finance purchases over longer periods



Personal Loans

Money borrowed from friends or family for small purchases

Liability Classification



Current Liability

Liabilities due within one year.
Something you expect to pay off soon.
Examples: Phone bill, utility bills,
credit card balance, allowance advance



Long-Term Liability

Liabilities due later than one year.
Something you expect to pay off over a
long time. **Examples:** Car loan, student
loans, home mortgage, business loan

Money Mavericks

Objective: Work to correctly identify the **liability type** and the **liability classification** within your workgroups on the following Practical Applications slide.

Alpha	Beta	Gamma
Delta	Epsilon	Zeta



Practical Application

Within your Money Mavericks Workgroups, identify the **Liability Classification** as a **Current Liability** or a **Long-Term Liability**.

Alpha	Beta	Gamma	Delta	Epsilon	Zeta
Auto Loan w/ 5-Year Term	Promissory Note Due in 2 Years	Cell Phone Bill	Utility Bill	Medical Bill	Business Loan for New Equipment
Library Fine on Overdue Books	\$50 Due to a Friend Next Week	Gym Membership Bill	Speeding Ticket Owed to the State	Lunch Money Owed to a School	School Field Trip Fees
Credit Card Balance	Home Mortgage	Student Loans for College	Bank Loan to Launch a Business	Car Loan	3-Year Bicycle Loan to Parents

💡 Hint: Current = due within 1 year | Long-Term = due beyond 1 year

Practical Application - Answers

Within your Money Mavericks Workgroups, identify the **Liability Classification** as a **Current Liability** or a **Long-Term Liability**.

Alpha	Beta	Gamma	Delta	Epsilon	Zeta
Auto Loan w/ 5-Year Term	Promissory Note Due in 2 Years	Cell Phone Bill	Utility Bill	Medical Bill	Business Loan for New Equipment
Library Fine on Overdue Books	\$50 Due to a Friend Next Week	Gym Membership Bill	Speeding Ticket Owed to the State	Lunch Money Owed to a School	School Field Trip Fees
Credit Card Balance	Home Mortgage	Student Loans for College	Bank Loan to Launch a Business	Car Loan	3-Year Bicycle Loan to Parents

LONG-TERM LIABILITY **CURRENT LIABILITY**

What Is Debt Service?



Debt Service

Debt service is the money you need to pay regularly to fully repay a loan. Servicing debt requires cashflow greater than the debt service payment amount. If your income is less than what you owe each period, you can't keep up.

It's a Regular Payment

Debt service is the amount you pay each week, month, or year until the loan is fully repaid.

Cashflow Must Exceed It

You need income greater than your debt service payment. If not, you fall behind.

It Includes Interest

Each payment covers both the interest (cost of borrowing) and a portion of the original loan.

Example: Borrow \$50 from a friend. Repay \$5 / week for 11 weeks = \$55 total. The debt service is **\$5 per week**.



Class Discussion

If you owe a friend \$50 but don't have a job, how could you pay back the loan?

Generating Cash to Pay Debt

Four ways to find money when you owe



**Make More
Money**

*Increase Your
Income*



**Spend Less
Money**

*Decrease Your
Expenses*



**Sell Stuff
You Own**

*Sell Assets for
Cash*



**Borrow More
Money**

*Increase What
You Owe*



Borrowing more money to pay debt can create a dangerous cycle!





Class Discussion

What could go wrong if you borrow more than you can pay back? How can you avoid that?

Eventually, you
run out of stuff
to sell, and you
run out of
people who
will lend you
money.



Generally, when you pay back a loan, the **first part of your payment covers interest** (the cost of borrowing money).

The rest goes toward reducing the amount you owe.



Home Mortgage Example



Home Mortgage Example



What would the monthly payment be?



Purchase Price

\$500,000



Down Payment

\$100,000



Mortgage Amount

\$400,000

Interest Rate

6% per year

Loan Term

30 years

Monthly Payment

?

Home Mortgage Example

Your Monthly Payment

\$2,398

every month, for 30 years

Total Paid Over 30 Years

\$863,353

on a \$400,000 loan

Total Interest Paid

\$463,353

that's almost as much as the house itself!

Year One: Where Does Each Payment Go?

12 monthly payments on a \$400,000 mortgage at 6% interest

Month Number	Mortgage Payment	Interest Paid	Principal Paid	Mortgage Balance
1	\$2,398	\$2,000	\$398	\$399,602
2	\$2,398	\$1,998	\$400	\$399,202
3	\$2,398	\$1,996	\$402	\$398,799
4	\$2,398	\$1,994	\$404	\$398,395
5	\$2,398	\$1,992	\$406	\$397,989
6	\$2,398	\$1,990	\$408	\$397,581
7	\$2,398	\$1,988	\$410	\$397,170
8	\$2,398	\$1,986	\$412	\$396,758
9	\$2,398	\$1,984	\$414	\$396,344
10	\$2,398	\$1,982	\$416	\$395,927
11	\$2,398	\$1,980	\$419	\$395,509
12	\$2,398	\$1,978	\$421	\$395,088
Total	\$28,778	\$23,866	\$4,912	

Of every \$2,398 payment...

\$1,989
Interest

Average Amount
in the 1st Year

\$409 Principal

Home Mortgage Example

In the first year of a 30-year mortgage...

83%

went to interest

\$23,866 of \$28,778

17%

reduced the mortgage

\$4,912 of \$28,778

After paying **\$28,778** in year one, you still owe **\$395,088** out of the original **\$400,000**.



Three Key Takeaways

1. A liability is anything you owe that has value.
2. Paying off liabilities requires cashflow greater than debt service amounts.
3. Loan payments first cover interest, then reduce what you owe.



Where to Learn More

- [Credit Tips for Teens](#) by Karon Warren via Investopedia
- [How Do Student Loans Work](#) by Jeff White
- [Assets and Liabilities Explained For Teens](#) by David McCurrach via Kids' Money

X @PETROS_USA

in <https://linkedin.com/in/petrosk>

Learn it. Earn it. Own it. Grow it.

Teaching young people how
money really works

**Financial Literacy with
Mr. 401(k)**

<https://petros.us/about-finlit>

