

Financial Literacy with Mr. 401(k)  
[‘FinLit with Mr. 401(k)’]  
Winter Term 2023-2024  
January 11, 2024

Owning and Owing Stuff  
Class 14:  
Liabilities = The  
Stuff You Owe



# Recap: Important Financial Terms



## **Income**

Making Money



## **Expenses**

Spending Money



## **Profit (Loss)**

= Income - Expenses



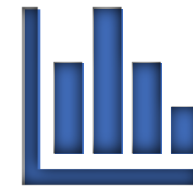
## **Assets**

The Stuff You Own



## **Liabilities**

The Stuff You Owe



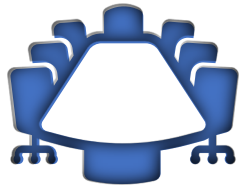
## **Equity**

= Assets - Liabilities

An obligation owed to others that has monetary value

**Liability**

# Any 'Entity' Can Owe Liabilities



**Corporations**



**Governments**



**People**



## *Class Discussion*

*What are some examples of liabilities that people might owe?*

# Liability Examples Teens May Experience



## **Allowance Advances**

Money borrowed from parents in advance of a scheduled allowance



## **Club Dues**

Outstanding dues or fees for club sports



## **Library Fines**

Fines on overdue library books



## **Payment Plans**

Payment plans to finance purchases over longer periods



## **Personal Loans**

Money borrowed from friends for small purchases

# Liability Classification



## **Current Liability**

Liabilities due within one  
year



## **Long-Term Liability**

Liabilities due later than  
one year

# Money Mavericks

**Objective:** Work to correctly identify the liability classification within your Money Mavericks Workgroups on the following Practical Applications slide.

Alpha: Green  
Beta: Orange  
Gamma: Gold  
Delta: Silver





# Practical Application

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

Auto Loan w/  
5 Year Term

Library Fine on  
Overdue  
Books

Credit Card  
Balance

\$50 Due to a  
Friend Next  
Week

Home  
Mortgage

Cell Phone Bill

Payday Loan

Student Loans  
on College  
Tuition

Utility Bill

Speeding  
Ticket Owed  
to the State

Medical Bill

Lunch Money  
Owed to a  
School

Game  
Console Loan  
from Parents

Sports Club  
Annual  
Membership

School Field  
Trip Fees

Gym  
Membership  
Bill

# Debt Service

Amount of money borrowers must pay, typically on a regular schedule, to satisfy their financial obligations



Servicing debt  
requires cashflow  
greater than the debt  
service payment  
amount

# Generating Cash to Pay Debt



## **Make More Money**

Increase Your Income



## **Spend Less Money**

Reduce Your Expenses



## **Sell Stuff You Own**

Sell Your Assets for Cash



## **Borrow Money**

Increase What You Owe



## *Class Discussion*

*What are some problems with selling stuff you own or borrowing more to pay debts?*

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





## *Class Discussion*

*What do you think might happen if you don't have enough cash to service debts?*

When repaying  
loan balances,  
payments **first**  
**satisfy loan**  
**interest**, and  
then reduce  
loan principal





# Home Mortgage Example

- Home Purchase
  - \$500,000 purchase price
  - \$100,000 down payment
  - Mortgage Amount = ?
- Mortgage Parameters
  - Annual Interest Rate = 6.50%
  - Term = 30 Years
  - Monthly Mortgage Payment = \$2,528

Payment #	Mortgage Payment	Interest Expense	Loan Principal Reduction	Mortgage Balance
1	\$2,528	\$2,167	\$362	\$399,638
2	\$2,528	\$2,165	\$364	\$399,275
3	\$2,528	\$2,163	\$366	\$398,909
4	\$2,528	\$2,161	\$368	\$398,542
5	\$2,528	\$2,159	\$370	\$398,172
6	\$2,528	\$2,157	\$372	\$397,801
7	\$2,528	\$2,155	\$374	\$397,427
8	\$2,528	\$2,153	\$376	\$397,052
9	\$2,528	\$2,151	\$378	\$396,674
10	\$2,528	\$2,149	\$380	\$396,295
11	\$2,528	\$2,147	\$382	\$395,913
12	\$2,528	\$2,145	\$384	\$395,529
<b>Totals</b>	<b>\$30,339</b>	<b>\$25,868</b>	<b>\$4,471</b>	

In the 1<sup>st</sup> year, 85% of mortgage payments went to interest  
***only 15% reduced the mortgage principal***



# Three Key Takeaways

1. A liability is an obligation owed to others that has monetary value
2. Servicing debts requires cashflow greater than debt service payment amounts
3. Loan payments first go to interest, and only after that satisfy principal loan amounts



## Where to Learn More

- [Credit Tips for Teens](#) by Karon Warren via Investopedia
- [How Do Student Loans Work](#) by Jeff White
- [Teens' Guide to Building a Strong Personal Finance Education](#) by Nathan Paulus via MoneyGeek