

Standard Deviant School The Wild & Wacky World of Finance
Tape Two: *Assets and Liabilities*
Length: 26 minutes, © 2002 Cerebellum Corporation
Audience: 7-12 grades

Assets and Liabilities includes the components of an income statement, understanding how interest rates are determined, and the time value of money concept.

Standard Deviant School The Wild & Wacky World of Finance: Assets and Liabilities

- I. Two Most Important Reports Included in Annual Reports
 - A. Balance sheet
 - B. Income statement
 1. Gross income
 2. Expenses
 3. Depreciation
 4. Earnings Before Interest and Taxes (EBIT)
 5. Earnings Before Taxes (EBT)
 6. Net Income (NI)
 7. Net Cash Flow (NCF)

- II. Interest Rates
 - A. Three items used to build an interest rate
 1. Real rate
 2. Inflation premium
 - a. Risk free rate
 - b. Three types of treasury securities
 - i. T bill
 - ii. T note
 - iii. T bond
 3. Risk premium
 - B. Relationship between long term and short term interest rates
 1. Term structure of interest rates
 - a. Yield curve
 - b. Normal yield curve
 - c. Inverted yield curve

- III. Time Value of Money
 - A. Future value of money
 1. Definition of compounding
 - a. Savings perspective
 - b. Debt perspective
 2. Terms used
 - a. Principal
 - b. Time period
 - c. Interest

- B. Future value of an annuity
 - 1. Definition of an annuity
 - 2. Ordinary annuity (deferred annuity)
 - 3. Annuity due