THE FINANCIAL EDGE

UNDERSTAND · FAMILY WEALTH DIAGNOSTIC

FAMILY BALANCE SHEET™

See where your family wealth sits — and how dependent your financial future remains on the business.

A practical framework for measuring, understanding and designing family wealth.

TONY DIMITRIADIS
CPA ACCOUNTANT

AD Partners | Accounting & Advisory

WHY THIS MATTERS

A successful business is only part of the picture

Business owners often know their revenue, profit and cash position in considerable detail. Yet many have never put the family's complete financial position on one page.

The Family Balance Sheet™ is designed to change that. It brings together the wealth you have created, the debt supporting it, where that wealth legally sits, how concentrated it is, and how dependent your family's future remains on the operating business.

The objective is not a perfect valuation. It is a sufficiently reliable picture to support better financial decisions.

What this workbook will help you see

- Your current Family Net Wealth
- How much wealth sits outside the operating business
- Where family wealth is concentrated
- How much liquidity and financial runway you have
- How dependent family income and wealth remain on the business
- What you want the Family Balance Sheet to look like five years from now

Use the companion Excel Family Balance Sheet Tracker for calculations and annual updates. Use this workbook for the thinking, conversations and decisions behind the numbers.

THE METHODOLOGY

Five rules for a reliable Family Balance Sheet

1. Measure economic reality, not accounting history.

Use reasonable current values rather than tax cost bases, original purchase prices or accounting carrying amounts.

2. Count every economic asset once.

Avoid double counting assets held through companies, trusts, superannuation or other structures.

3. Separate business value from business debt correctly.

Use estimated equity value and do not deduct the same liability twice.

4. Identify where wealth legally sits.

Family-controlled wealth may be held personally, jointly, through companies or trusts, or in superannuation.

5. Precision is less important than clarity and consistency.

The Family Balance Sheet is a decision-making framework, not a formal valuation or set of financial statements.

Every economic asset appears once.

STEP ONE

Define the family unit

Before adding numbers, define whose economic position the Family Balance Sheet is intended to measure. For most business-owning families this will include the owner, spouse or partner, and the family-controlled entities through which wealth is held.

Family / household

_____

_____

Individuals included

_____

_____

Entities included

_____

_____

_____

Important: including an asset held by a trust, company or SMSF does not imply that an individual personally owns or is legally entitled to that asset. The ownership/entity column should always identify where the asset legally sits.

STEP TWO

Everything we own

Use reasonable current values. For business interests, record estimated equity value—not revenue and not enterprise value before debt. Material personal-use assets may be included; ordinary household items generally need not be.

Asset / Interest	Category	Legal Owner / Entity	Estimated Value
Principal residence			$
Operating business interests			$
Investment / development property			$
Financial investments			$
Superannuation			$
Cash & deposits			$
Other family-controlled wealth			$

Business value confidence

Where a business interest is material, note the basis of the estimate: formal valuation, recent transaction/offer, adviser-prepared valuation, management estimate, owner estimate or unknown. Then record confidence as High, Moderate, Indicative or Unknown.

Do not let false precision create false confidence.

STEP THREE

Everything we owe

Record liabilities that economically belong to the family position. If business debt has already been reflected in the equity value entered for a business interest, do not deduct it again.

Liability	Borrower / Entity	Related Asset	Balance	Already in Equity Value?
Home lending			$	
Investment lending			$	
Business-related personal debt			$	
Personal debt			$	
Tax liabilities where material			$	
Other			$	

Contingent exposures

Personal guarantees and security supporting business debt are not automatically current liabilities unless they have crystallised. Record them separately because they may still expose family assets to business risk.

STEP FOUR

Calculate Family Net Wealth

METHOD · FAMILY NET WEALTH = CURRENT ESTIMATED FAMILY ASSETS – INCLUDED FAMILY LIABILITIES

Your headline Family Wealth measures

FAMILY NET WEALTH	**$** _____
WEALTH OUTSIDE OPERATING BUSINESS	**$** _____
LIQUID FINANCIAL WEALTH	**$** _____

The standard Family Balance Sheet does not automatically deduct hypothetical future CGT, transaction costs, sale costs or other costs that may arise on realisation. Those matters can be modelled separately where they are material to a decision.

STEP FIVE

Where does your wealth live?

Two families can have identical net wealth and completely different financial positions. Asset concentration matters because it shows where the family's economic exposure sits. The percentages below are measured against total assets so the categories add to 100%.

Wealth Category	Estimated Value	% of Total Assets
Lifestyle assets	$	%
Operating business wealth	$	%
Property wealth	$	%
Financial investments	$	%
Superannuation	$	%
Cash & deposits	$	%
Other / development interests	$	%

Concentration percentages use gross asset values and therefore total 100%. Liabilities are considered separately when calculating Family Net Wealth.

Consider

- Which category dominates our Family Balance Sheet?
- Is that concentration deliberate?
- Would we choose the same concentration if designing the balance sheet today?
- What would happen to family wealth if our largest asset materially declined in value?

STEP SIX

How dependent is your family on the business?

Business Wealth Dependency

METHOD · Operating business equity ÷ Family Net Wealth × 100

This measures how much of current family net wealth is represented by the operating business. It is descriptive—not automatically good or bad.

Business Income Dependency

METHOD · Household income derived from the operating business ÷ Total household income × 100

This shows how dependent the family's current lifestyle and saving capacity are on business income.

The question that matters

FINANCIAL EDGE QUESTION

Are you comfortable with this level of dependency given your stage of business and life?

STEP SEVEN

Financial runway

Net wealth alone does not tell you whether the family can absorb a period without business income. A family may be wealthy on paper and still have limited liquidity.

METHOD · FINANCIAL RUNWAY = LIQUID FINANCIAL WEALTH ÷ ANNUAL FAMILY EXPENDITURE × 12

Measure	Amount
Liquid financial wealth	$
Annual family expenditure	$
Financial runway	_____ months

Consider

FINANCIAL EDGE QUESTION
If business income stopped for twelve months, what would need to change?

TECHNICAL CHECK

Related entities and loans

Business-owning families often have loans, investments and cash moving between companies, trusts and individuals. These can easily be counted twice unless the treatment is explicit.

Related-party loan check

Loan / Receivable	Amount	Included in Business Value?	Treatment
	$	Yes / No / Unsure	
	$	Yes / No / Unsure	
	$	Yes / No / Unsure	

If a loan receivable is already captured in the equity value of an entity, do not separately add it again. If it is excluded from the valuation and represents a genuine economic asset, it may be separately recorded. If unsure, flag it for adviser review.

Look-through presentation

For family-controlled investment companies or trusts, the Family Balance Sheet may present the underlying economic category—such as investments—provided the shares or units are not also counted. The legal owner/entity should still be identified.

BOARDROOM DISCUSSION

What is the Family Balance Sheet telling us?

Do we know our true approximate net worth?

How much of our wealth remains tied to the operating business?

If the business stopped producing income, which assets would continue supporting our family?

What are our five most valuable assets?

Which liabilities deserve priority?

Is our wealth concentration deliberate?

What story does our Family Balance Sheet tell today?

Are we becoming wealthier—or simply running a more valuable business?

STEP EIGHT

Design the Five-Year Family Balance Sheet™

This is a target, not a forecast. The purpose is to define the financial position you want to create rather than pretend every future asset value can be predicted precisely.

Measure	Today	Five-Year Direction
Family Net Wealth	$	$
Total debt	$	$
Wealth outside operating business	$	$
Liquid financial wealth	$	$
Superannuation / investments	$	$
Business Wealth Dependency	%	%

Five years from now, what do we want this page to say about our family?

STEP NINE

Close the wealth gap

Measure	Amount
Current Family Net Wealth	$
Five-Year Family Net Wealth Target	$
WEALTH GAP	$

Where will the additional wealth come from?

Source	Estimated Contribution
Business profits / distributions	$
Increase in business value	$
Property	$
Investment returns	$
Superannuation	$
Debt reduction	$
Other	$

Do not include speculative development profit or future inheritances as current wealth. Future opportunities can inform the five-year direction without inflating today's Family Balance Sheet.

STEP TEN

Where does the next dollar go?

The Family Balance Sheet identifies the position. Capital allocation determines how that position changes.

Use of Financial Capacity	Current Approx. Allocation
Business reinvestment	___%
Debt reduction	___%
Superannuation	___%
Investment assets	___%
Cash reserves	___%
Lifestyle	___%
Other	___%

FINANCIAL EDGE QUESTION
Is this allocation deliberate—or simply what happens?

The Four Wealth Buckets™ and Wealth Allocation Planner will take this conversation further. Here, the objective is simply to identify whether the movement of capital is intentional.

ACTION

Our three Family Wealth priorities

Priority 1

What needs to change?

Why does it matter?

First action / target date:

Priority 2

What needs to change?

Why does it matter?

First action / target date:

Priority 3

What needs to change?

Why does it matter?

First action / target date:

If we could improve only one aspect of our Family Balance Sheet over the next twelve months, what should it be?

REVIEW

Annual Family Wealth Review

Measure	This Year	Prior Year	Change
Total assets	$	$	$
Total liabilities	$	$	$
Family Net Wealth	$	$	$
Wealth outside operating business	$	$	$
Liquid financial wealth	$	$	$
Business Wealth Dependency	%	%	%
Financial runway	months	months	months

Review questions

- Has Family Net Wealth increased?
- Has dependence on business income reduced where appropriate?
- Are we building quality assets outside the operating business?
- Has debt reduced in line with our strategy?
- Are we more confident about our financial position than twelve months ago?

COMMIT

Our Family Wealth Commitment

Over the next twelve months, the most important improvement we will make to our Family Balance Sheet is:

_____

_____

_____

_____

Responsible: _____

Target completion date: _____

Next Family Balance Sheet review: _____

People / advisers to involve: _____

A successful business is valuable. A strong Family Balance Sheet creates choice beyond the business.

WHERE TO GO NEXT

Turn understanding into deliberate allocation

Use the companion Excel Tracker to keep the numbers current. Your next strategic question is where future financial capacity should go.

NEXT RESOURCE
FOUR WEALTH BUCKETS™
Decide where future financial capacity should go.

When a broader review may be appropriate

Where business structure, taxation, family wealth, asset protection, investment strategy, succession and future objectives interact, isolated decisions can have consequences elsewhere. The Financial Edge Review™ is designed to consider the complete financial architecture together.

FIND THE FULL RESOURCE SET

All seven Financial Edge resources and their Excel companions are free to download at **thefinancialedge.com.au**.

To discuss a Financial Edge Review™, contact AD Partners on (03) 9349 3499, email **admin@adpartners.com.au** or visit **adpartners.com.au/contact**.

IMPORTANT INFORMATION

About this resource

The Financial Edge Family Balance Sheet™ and companion tracker are provided for general educational and informational purposes only. They are designed to help organise financial information, encourage discussion and identify areas that may warrant further consideration.

They do not constitute accounting, taxation, legal, financial, investment, insurance, valuation or other professional advice. Values entered are estimates supplied or selected by the user and are not independently verified. Business values are indicative unless supported by an appropriate formal valuation.

The Family Balance Sheet does not automatically allow for future taxation, transaction costs, realisation costs or other amounts that may arise if assets are sold or transferred. Inclusion of assets held through companies, trusts, superannuation funds or other structures does not imply personal legal ownership or entitlement.

Professional advice should be obtained before implementing financial, taxation, legal, investment, insurance, restructuring, succession or estate-planning strategies.

Tony Dimitriadis · CPA Accountant | AD Partners · Accounting & Advisory