UNIT 2: WHERE ARE YOU NOW, WHERE ARE YOU GOING?

NET WORTH STATEMENT

PREPARING A NET WORTH STATEMENT

In our last workshop, we talked about your goals and what it would take to reach your goals This workshop will give you some of the tools that will help you do just that Whatever your goal is–buying a different car or house, accumulating an emergency fund, educating your children, or creating a retirement nest egg–there are some tools that will help you get from where you are now to where you want to r

This is also the time to review your liabilities. Have you borrowed money to purchase a car, a recreational vehicle, a home? If so, how does the amount you presently owe compare to the present value of the item?

Sometimes, money is borrowed for items that are investments in human capital. Investments in human capital are those things that increase an individual's knowledge, skills or well-being. Education and medical and dental care are examples of investments in human capital. These items do not show up as financial assets on the net worth statement, but they will show up as debts or decreased savings. Even though they may decrease financial net worth in the short run, they are important assets to the family and the individual.

INCOME AND EXPENSE STATEMENT

The second tool that will help you meet your goals is an income and expense statement (Worksheet 4). An income/expense statement is a picture of your income now and how you have spent your money in a given time period in the past. Why would this be necessary? Because until you know where your money is going now, it is very difficult to be able to put together a plan to meet future goals. An income/expense statement can help identify expenditures to decrease in order to increase savings.

An income/expense statement is not the same as a net worth statement. A net worth statement calculates your financial status at one point in time. An income/expense statement, in contrast, is a record of your income and outgo over a period of time in the past, usually the previous 12 months. For example, a net worth statement lists the amount you owed on your car at the end of the year; an income/expense statement tells you the total amount you paid in car payments over the past year.

An income/expense statement is also not the same as a budget or spending plan. A budget is a plan for future expenditures and income; it can also be a running record of expenditures and income. Income/expense statements summarize income and expenditures over a longer period of time than budgets, usually a year. Budgets usually cover spending for a week or a month at a time and therefore contain much more detail about the nature of income and expenditures.

HOW DO YOU PREPARE AN I

Most people calculate their income/expense statement from January 1 to December 31 of the same year. Some do it sometime during the month of January, others wait until they have completed their tax returns and do it in March or April. But you can start and end an income/expense statement in any month and use periods longer than a year if you wish.

Worksheet 4 is a template that you can use to create your own income/expense statement. Begin by listing all sources of income in the left hand column. The easiest way to obtain most of this information is to use your latest tax return. You can also use payroll stubs and listings of all deposits in your checkbook and savings account. Remember to list all sources of income, including money from gifts, interest, dividends and income-producing property. The information about state and local taxes is available on both your tax return and your paycheck stubs and wage statements. You may have other deductions from your pay that fit into other categories. For example, you may have a set amount deducted every pay period for United Way or for disability insu71378(7)0 T j d 2.8 0 4 T j 0 T3d 1 8(0t4)7T0 j T d 3 1 8 7 2 5 0 (Tpd) T(je)5T7j 1 3 5 .0 7 (4/8) T j 5.7 1 3 8 7 0 T d underestimated expenses. On the other hand, if your expenses are greater than your income, you may have dipped into savings, used credit, or underestimated your income.

Worksheet 4 is a sample income/expense statement form and one you can use for getting started. After you've worked with it for a while you'll probably want to personalize it by creating your own categories. You might not need some of the categories listed on the form. Or you may want to add a category that fits only you. Likewise, families with different styles of financial management can use an income/expense statement in different ways. Couples who pool their incomes would probably fill out one statement. A couple keeping separate accounts might fill out two statements–one for each person. Some couples with separate accounts may also fill out a third sheet for their joint income or joint expenses.

After you have estimates for last year, think ahead to your income and expenditures for next year. You will be able to predict some items better than others, but do the best you can. The better you estimate, the fewer financial surprises you will have during the year.

If your income is uncertain, as it often is for farm families or people who work on commission, estimate the highest and lowest income you expect for the year. Have an idea what expenses you will adjust if income is at its lowest rather than the highest estimate. For example, can you consolidate trips to town to save on gasoline? Carpool to school events? Eat out less often? Can a major purchase be postponed?

HOW DO YOU USE THE INCOME/EXPENSE STATEMENT?

After completing the income/expense statement, review your income. If your income is increasing, how much can you safely allocate to meet your future financial goals? If income is decreasing, what expenditures are you most willing and able to decrease? Are there ways to get additional income?

Look over your expenditures. Are there expenditures you think should be increased? Decreased? Are there debts that will be completely paid off in the near future? If so, can the money that has been going to debt go into meeting future goals? Utah State University has developed a software program called PowerPay that you can use to help with debt reduction. With PowerPay, you continue to make all payments on current obligations. Then when one debt is paid in full, money used for that debt is used to increase payments on another debt. This enables you to pay more money than is due each month until all 5.71252 0 Td (c) Tj 5.07368 0 Td (r) T 0 Td (a)

KEEPING TRACK

As you begin to put together an income/expense statem

Worksheet 5 is a sample spending plan. Your own plan may have many more types of expenses as items come up during the year. You can personalize the plan as you did the net worth statement. Paste labels over expense categories you don't have or anticipate. Write in new categories that capture existing expenses that are likely to occur again. Make as many drafts as necessary to arrive at a plan that fits your income and needs. Once you have arrived at a form that makes sense for you, make extra copies. Don't become discouraged if your first plan isn't perfect. Your plan may need to be changed often because your family's needs are changing.

At the top of the saving/spending form, write down all the income you expect in the next month. Then, using the historical record you created in the income/expense statement, itemize expenses for this month. Look ahead to see what must be set aside for future expenses, like car insurance and property taxes. It's okay if every penny isn't budgeted. In fact it's good to have some leeway for the unexpected.

If possible, set aside a little money each month that is a personal allowance. For single persons, a personal allowance allows for small indulgences within self-imposed limits. Many married couples find a personal allowance tends to cut down on conflicts. Two people seldom agree completely on how to spend money. Personal allowances allow each partner to exercise complete discretion over an agreed-upon amount of money and to not have to answer any questions about where it was spent.

During [illegible]

WORKSHEET 3: NET WORTH STATEMENT

Date______________________________

Assets

Cash on hand	$__________
Checking account(s)	__________
Savings account(s)	__________
Money market mutual fund(s)	__________
Money market deposit accounts	__________
Certificates of deposit	__________
Savings bonds	__________
Stocks	__________
Bonds	__________
Mutual funds	__________
Real estate	
Home	__________
Other	__________
Cash value/life insurance	__________
Partnership/business equity	__________
IRA Roth IRA	__________
Keogh/SEP	__________
Employee retirement fund	__________
401 (k)/403(b) plans	__________
Tax-deferred annuities	__________
Other retirement funds	__________
Home furnishings/appliances	__________
Automobile(s)	__________
Antiques, art, collections	__________
Jewelry, furs, etc	__________
Sports and hobby equipment	__________
Other	__________
Total assets	$__________

Liabilities

Mortgages	
Home	$__________
Other real estate	__________
Automobile loan(s)	__________
Bank loan(s)	__________
Student loan(s)	__________
Credit cards/charge accounts	__________
Past due bills	__________
Taxes	__________
Pledges: charities, church	__________
Partnership/business debt	__________
Loans on life insurance policies	__________
Other liabilities	__________
Total liabilities	__________
Total assets	__________
Less total liabilities	__________
Net worth	$__________

WORKSHEET 4: INCOME /EXPENSE STATEMENT

From ______________________________ **to** ______________________________

Income	
Gross salary	**$**__________
Interest income	__________
Dividends	__________
Business/profit sharing	__________
Profit from rental property	__________
Profit from sale of assets	__________
Alimony/child support received	__________
Annuities	__________
Pension/retirement funds	__________
Social Security	__________
Disability insurance payments	__________
Cash gifts	__________
Other income	__________
	__________
	__________
Total cash income	$__________

Expenses	
Federal taxes	**$**__________
Social Security (FICA)	__________
State income taxes	__________
Property taxes	__________
Other taxes	__________

Rent/Mortgage

WORKSHEET 5: SAVINGS / SPENDING PLAN

From ______________________________ to __________

WORKSHEET 6: A REMINDER OF SPECIAL EXPENSES

Some expenditures occur only once or twice a year. For example, car insurance premiums, property taxes, expenses related to holidays, special events, vacations, and expenses for seasonal activities (skiing and hunting). Use this form to remind you when **these occur and how much they** cost**.**

January **Total $** __________	February **Total $** __________	March **Total $** __________
April **Total $** __________	May **Total $** __________	June **Total $** __________
July **Total $** __________	August **Total $** __________	September **Total $** __________
October **Total $** __________	November **Total $** __________	December **Total $** __________