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Lesson Two

Managing Your MONEY

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Where Does All the Money Go?

Do you know where your money goes? You say, "house payments, car loan, utility bills, and food." But after that, things begin to get a bit fuzzy about where the rest of it goes. Right?

After you have set your goals, as you did in Lesson 1, the next step in making a realistic financial plan is to learn where your money is being spent. This might be a hard job for some people; others will find it to be very rewarding. No matter how you feel, it **MUST** be done before you can start to develop your own plan. This information is essential for high quality future financial decisions. Invest the time now for a better payoff later.

What Do You Owe?

It is necessary to list all of your credit obligations before you can go on to analyze your total financial situation. A worksheet called "How Much Do You Owe?" is enclosed with this lesson. By filling out this worksheet first, you will have a clear idea of all of your credit obligations—both loans and credit card use. After this has been completed, the next step is to analyze your cash flow.

What is Cash Flow?

Your cash flow is simply the money going into your pocket and out again. It is matching your income with your expenses. Sounds simple, doesn't it? It really is, but very few people take the time to keep track of what actually comes in and goes out each month.

The second worksheet with this lesson is called "Income and Expenses." For the most accurate look at your budget, an entire year's income and expenses should be kept. That's really a lot of work! But, to get you started learning what records you will need, this worksheet provides space for two months. For additional worksheets please refer to the following VCE publications: Getting Out of Debt (354-027) and How To Make Your Money Go Further (354-028). These publications are available at your local Virginia Cooperative Extension office or you can visit our website at: <http://www.ext.vt.edu> or <http://www.ext.vt.edu/money2000/index.html>.

The first thing you will need to do is to collect all of your bills, receipts, and check ledgers which will help you monitor your spending for the month. (It could be for last month, the current month, or both.) Another way to monitor your spending is to use a daily expense tracker in which you record all the cash that you spend on a daily basis. Include both fixed and flexible expenses. Do you know the difference? **FIXED** expenses are items such as rent, mortgage, car payment, and other regular installment payments that basically stay the same each month and for which you are committed for a period of time.

FLEXIBLE expenses are the expenses that change from month to month such as food, clothing, utilities. You have a bit more control over some of these items.

If you have recently become self-supporting, or are starting a household for the first time, it may be difficult to find complete records. Do the best you can for now and start keeping track of as many

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expenses as you can. Start writing down everything you spend for at least a week. The more accurate and complete the worksheet, the easier and more effective your financial planning will be.

The Bottom Line

If your income exceeds expenses, you will have money to put into a savings plan to use toward achieving your financial goals. However, if income does not cover all expenses, see what you might do to increase your income or decrease your expenses. Take a look at your budget to see if you can find some spending leaks. We'll be discussing this problem in an upcoming lesson.

The most critical time to try to control fixed expenses is before you commit to the obligation. Are there other options you need to consider? Is there a way for you to reduce some of your flexible expenses?

Know Your Net Worth

You have already taken the first step in developing a money management plan by completing the first two worksheets. You will also need to determine "where you stand" overall by preparing a net worth statement.

The net worth statement is the best indicator of your financial position at a particular point in time. It will help you determine the progress toward your own financial goals.

Net worth is the amount you get when you subtract everything you OWE from everything you OWN. This information can also be useful when you:

- Apply for a loan
- Write your will
- Borrow money
- Determine insurance needs
- Settle a divorce

The third worksheet with this lesson is a net worth page. Use it to figure your total financial worth at this moment. List all of your assets - the things you own. List the value of items like your house or furniture as the amount you could get if you wanted to turn that item into cash today. Next, list all of your liabilities—the amounts you still owe. This is the total amount you would need to repay if you hit the lottery and could repay the debts in full today.

What Are Your Assets?

Assets are any financial or material possessions that have monetary value. Remember that these must be valued at the current market value; that is, what you could sell them for today, not what you paid for them, or what you "hope" they are worth or what you could get if you waited for the ideal time to sell. They include things such as:

- Cash on hand or in savings accounts (including certificates of deposit or checking accounts and money in "piggy banks")
- Stocks, bonds, mutual funds
- Cash (not face) value of life insurance
- Money others owe to you (but only if you can be reasonably sure they will repay)
- Annuities, retirement plans
- Employee benefits such as company stocks
- Your home
- Other real estate, business interests
- Automobiles, trucks, other vehicles
- Household furnishings, clothing, antiques, jewelry, books, coins, artwork, etc.

What Are Your Liabilities?

Liabilities are the financial obligations or debts you owe to other persons or institutions. The information you gathered for the first worksheet should help you in filling out this portion of the net worth form. List the amount you would need to repay the loan in full. Included are:

- Mortgages
- Installment loans (cash, auto, etc.)
- Department store and credit card debts
- Taxes
- Unpaid bills (medical, utilities, etc.)
- Any other liabilities

Total your assets and your liabilities. Subtract the liabilities from the assets. The result—Your Financial Net Worth. This number may not mean a lot to you as a single number - but if you do this

once a year it can help you track your progress. This doesn't mean it should go up every year, and it certainly is not an indication of your value as a person, but it can help you see what is happening to your overall financial picture. You **SHOULD NOT** compare your net worth to someone else's net worth due to different values, goals, and situations.

Now that you have taken the time to complete these worksheets, how do you feel about your financial situation? Happy? Relieved? Discouraged? If you are a bit discouraged, remember that it is not unusual to have a negative net worth statement if you are just starting out on your own. Just as a photograph shows how you looked at one specific time, the net worth statement reflects your financial situation at only one point in time. It should be revised at least once a year or as your financial situation changes.

If you are not satisfied with your net worth and want it to grow, you will want to develop a plan to increase it. More income, less living expenses, and/or more investment growth are some alternatives.

To increase your savings, you may have to cut spending in some areas. Make sure that your savings and investments are yielding the best financial return for your situation. You may want to reduce your present debt level by making regular payments and not adding any other debts.

If you are like most people, your overall goal will be to increase your net worth each year or at least until you retire or begin paying for something very expensive like your children's college education. Developing a financial plan means taking control of what you have now and disciplining yourself to

manage your money in order to reach those goals you have set for yourself and your family.

For the best overall picture of your finances, realize that it is best to keep income and expense records for a whole year. Furthermore, you may want to contact your local Virginia Cooperative Extension office to check for the availability of a PowerPay analysis of your debt payments. PowerPay is a program that has been designed to help consumers make decisions about debt repayment by making power payments in which the principle of combining payments is used. If further assistance is needed, contact your local Virginia Cooperative Extension office to request a copy of one of the following publications or visit one of our websites at: <http://www.ext.vt.edu> or <http://www.ext.vt.edu/money2000/index.html>.

- Families Taking Charge - Spending Less (VCE Publication 354-098)
- Families Taking Charge - Setting Spending Priorities (VCE Publication 354-100)
- Record Book of Financial Information (VCE Publication 354-153)
- Getting Out of Debt (VCE Publication 354-027)
- How To Make Your Money Go Further (VCE Publication 354-028)

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Worksheet #2 Income and Expense Worksheet

Income:	Month 1	Month 2
Your Take Home Pay		
Spouse's/Partner's Take Home Pay		
Child Support / Alimony Payments		
Unemployment Insurance		
TANF		
Pension / Retirement		
Social Security		
Interest / Dividends		
Other (List)		
Total Income		
Fixed Expenses:		
Rent/Mortgage (Principal, Tax, Insurance)		
Life Insurance		
Medical/Health Insurance		
Vehicle Insurance		
Disability Insurance		
Household Insurance		
Car Payments		
Other Loan Payments		
Savings		
Emergency Savings		
Other (list)		
Total Fixed Expenses		
Flexible Expenses:		
Utilities (Electric, Gas, Water, Phone, Fuel Oil Etc.)		
Total Credit Card Payments (see worksheet #1)		
Auto Upkeep		
Food Costs (at home & away from home)		
Clothing		
Household Supplies		
Medical/Dental		
Recreation/Entertainment		
Church Donation/Other Charities		
Child Care		
Education		
Personal Allowances		
Other (List)		
Total Flexible Expenses		
Total Expenses		
Total Income - Total Expenses		

Worksheet #3 Net Worth Statements For 3 Years

Assets Owned	Date _____	Date _____	Date _____
Cash on hand	_____	_____	_____
Cash in checking accounts	_____	_____	_____
Cash in savings accounts	_____	_____	_____
Cash value of life insurance	_____	_____	_____
Savings bonds*	_____	_____	_____
Money other people owe you (that they will repay)	_____	_____	_____
Furniture and appliances*	_____	_____	_____
Miscellaneous personal property* (furs, jewelry, antiques, heirlooms, boats, art, etc.)	_____	_____	_____
Cars*	_____	_____	_____
Home*	_____	_____	_____
Other real estate*	_____	_____	_____
Stocks*	_____	_____	_____
Bonds*	_____	_____	_____
Mutual Funds*	_____	_____	_____
Government Securities*	_____	_____	_____
Annuities and other retirement plans	_____	_____	_____
Other assets*	_____	_____	_____
TOTAL ASSETS	_____	_____	_____

LIABILITIES OWED	\$ _____	\$ _____	\$ _____
Mortgage and liens	_____	_____	_____
Car loan	_____	_____	_____
Installment debts	_____	_____	_____
Personal loans	_____	_____	_____
Life insurance loans	_____	_____	_____
Credit Cards	_____	_____	_____
Other charge accounts	_____	_____	_____
Other unpaid bills	_____	_____	_____
TOTAL DEBTS	_____	_____	_____

YOUR TOTAL NET WORTH	Date _____	Date _____	Date _____
Total Assets	_____	_____	_____
Total Liabilities	_____	_____	_____
Net Worth = Assets - Liabilities	_____	_____	_____

* Current Market Value - what you could get for the item if you were to sell it today