

## CHAPTER 3

Figure 3.1

### **Where to Keep Your Financial Records**

**Home File**

1. Personal and Employment Records (Social Security number, employee benefit information, current résumé)
2. Money Management Records (current budget, balance sheet, cash flow statement, list of financial goals, copies of documents in safe-deposit box)
3. Financial Services Records (checkbook, canceled checks, bank statements, location and number of safe-deposit box)
4. Tax Records (W-2 forms, paycheck stubs, copies of income tax returns)
5. Consumer Records (receipts for major purchases, automobile service and repair records, owner's manuals for cars and major appliances, warranties)
6. Housing Records (lease, if renting; property tax records; home repair and improvement receipts)
7. Insurance Records (original insurance policies; list of insurance premium amounts and due dates; medical information, such as health history, prescription drug information)
8. Investment Records (records of stock, bond, and mutual fund purchases and sales, list of investment certificate numbers, brokerage statements, dividend records)
9. Estate Planning and Retirement Records (will, pension plan information, IRA statements, Social Security information)

**Safe-Deposit Box**

Birth certificates, mortgage loan papers, title deeds, copy of will, certificates of deposit, checking and savings account numbers, automobile title(s), insurance policy numbers, valuable collectibles.

**Home Computer**

Current and past budgets, summaries of checks written and other banking transactions, tax records, résumé

**SAFE AND SOUND**

A home file, safe-deposit box, or personal computer will enable you to organize your financial documents. **Where do you currently store important financial documents? Name at least three of your personal financial documents that you might store in a home file.**

## CHAPTER 3

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### Go Figure...

#### NET WORTH

**Example:** What is Janine's net worth if her assets are worth \$3,000 and her liabilities total \$700?

**Formula:**  $\text{Assets} - \text{Liabilities} = \text{Net Worth}$

**Solution:**  $\$3,000 - \$700 = \$2,300$   
Janine's net worth is \$2,300.

# CHAPTER 3

Figure 3.2

## Creating a Personal Balance Sheet



Melinda and Carroll Durbin  
Personal Balance Sheet as of October 31, 2002

### Assets

#### Liquid Assets

Checking account balance	\$1,450	
Savings account balance	<u>550</u>	
Total liquid assets		\$2,000

#### Real Estate

Market value of house		\$105,000
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#### Personal Possessions

Market value of car	4,250	
Furniture and appliances	2,500	
Electronic equipment	2,000	
Collectibles	<u>750</u>	
Total personal possessions		\$9,500

#### Investment Assets

Retirement accounts	15,000	
Stock investments	<u>3,300</u>	
Total investment assets		<u>18,300</u>

#### Total Assets

\$134,800

### Liabilities

#### Current Liabilities

Medical bills	\$1,250	
Credit card balances	<u>2,300</u>	
Total current liabilities		\$3,550

#### Long-term Liabilities

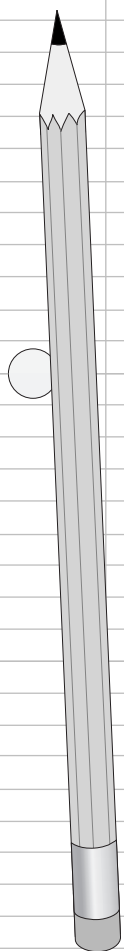
Mortgage	92,500	
Student loan	3,500	
Car loan	<u>2,500</u>	
Total long-term liabilities		<u>98,500</u>

#### Total Liabilities

\$102,050

#### Net Worth (assets minus liabilities)

\$32,750



TRUE OR FALSE?

The Durbin's personal balance sheet indicates that they have a positive net worth of \$32,750. *Does this figure reflect their true financial situation? Explain your answer.*

# CHAPTER 3

Figure 3.3

## Creating a Cash Flow Statement

Amy Grossman  
Cash Flow Statement for the Month Ending July 31, 2002

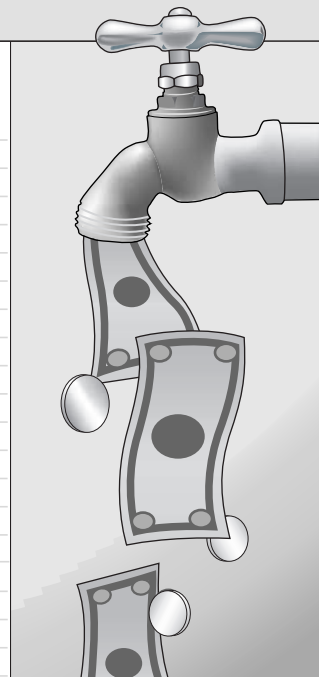
**Income (Cash Inflow)**

Take-home pay	\$450
Allowance	100
Savings account interest	12
Total income	<u>\$562</u>

**Expenses (Cash Outflow)**

Fixed expenses (cable TV, train commuter tickets, etc.)	\$ 80
Variable expenses (recreation, clothing, take-out food)	<u>320</u>
Total expenses	<u>\$400</u>

**Net Cash Flow** \$162



MONEY SUPPLY

Amy's cash flow statement indicates that her net cash flow is \$162. *How might she increase her net cash flow?*

### Go Figure...

### NET CASH FLOW

**Example:** What is Jason's net cash flow if his income for the month is \$1,500 and his expenses add up to \$1,350?

**Formula:**  $\text{Income} - \text{Expenses} = \text{Net Cash Flow}$

**Solution:**  $\$1,500 - \$1,350 = \$150$ .  
Jason has a positive net cash flow of \$150.

# CHAPTER 3

Figure 3.4

## Evaluating Your Financial Progress

Ratio	Calculation	Example	Meaning
Debt ratio	liabilities divided by net worth	$\$25,000 \div \$50,000 = 0.5$	Compares your liabilities to your net worth. A low debt ratio is desirable.
Liquidity ratio	liquid assets divided by monthly expenses	$\$10,000 \div \$4,000 = 2.5$	Indicates number of months you would be able to pay your living expenses in case of a financial emergency, such as the loss of your job. The higher the liquidity ratio, the better.
Debt-payments ratio	monthly credit payments divided by take-home pay	$\$540 \div \$3,600 = 0.15 = 15\%$	Indicates how much of a person's earnings goes to pay debts (excluding a home mortgage). Most financial experts recommend a debt-payments ratio of less than 20 percent.
Savings ratio	amount saved each month divided by gross monthly income	$\$600 \div \$5,000 = 0.12 = 12\%$	Most financial experts recommend a savings ratio of at least 10 percent.

**EXPERT ADVICE**

Suppose that you earned \$2,200 gross monthly income and you were paid twice a month. *What would be your savings ratio if you saved approximately \$60 from each paycheck? Would you be saving enough?*

# CHAPTER 3

Figure 3.5

## Monthly Budget of the Thompson Family

**Step 1:**  
Set Financial Goals

- **Financial Goals:** Pay off car loan, save for college, take vacation trip, increase investments

**Step 6:**  
Record What You Spend

**Step 2:**  
Estimate Your Income

**Income**

Salary and interest income      \$3,550      \$3,550      —

**Step 3:**  
Budget for Unexpected Expenses and Savings

**Outflows**

**Unexpected Expenses and Savings**

Emergency fund savings      100      100      —  
 Vacation savings      30      30      —  
 College savings      70      70      —  
 Investment savings      50      50      —  
 Total savings      250      250      —

**Step 4:**  
Budget for Fixed Expenses

**Fixed Expenses**

Mortgage      700      700      —  
 Automobile loan      200      200      —  
 Student loan      150      150      —  
 Insurance premiums      150      150      —  
 Total fixed expenses      1,200      1,200      —

**Step 5:**  
Budget for Variable Expenses

**Variable Expenses**

Food      500      600      —100  
 Clothing      250      250      —  
 Utilities      250      250      —  
 Entertainment      200      150      +50  
 Medical      250      250      —  
 Transportation      450      450      —  
 Personal allowances      200      225      —25  
 Total variable expenses      2,100      2,175      —75  
 Total outflow      \$3,550      \$3,625      —\$75

**Step 7:**  
Review Spending and Saving Patterns

**CAR TALK**

The Thompsons have an automobile loan with a \$200 monthly payment. *How might their budget be affected if they had to buy a second automobile?*

## Your Financial Portfolio

### What's Your Net Worth?

Roberto plans to go to Europe next summer with the school band. He probably will be able to save enough money by working all year at his part-time job. However, he's prepared to sell some of his possessions if he needs to, so he made a list of his assets and liabilities to determine his net worth.

#### Roberto's Balance Sheet

<b>Assets</b>		
Checking account balance	\$ 150	
Savings accounts	635	
Savings bonds	600	
<b>Personal Possessions</b>		
Market value of automobile	\$2,300	
Stereo, TV, and video equipment	1,600	
Computer	1,350	
Watch	330	
	<b>Total Assets</b>	<b><u>\$6,965</u></b>
<b>Liabilities</b>		
Balance due on car loan	\$1,527	
	<b>Total Liabilities</b>	<b><u>1,527</u></b>
	<b>Net worth (assets – liabilities)</b>	<b><u>\$5,438</u></b>

**Calculate** Determine your net worth. In your workbook or on a separate sheet of paper, list all your assets, personal possessions, and liabilities (what you owe). Are you surprised that your net worth is as much (or as little) as it is? How much would you like your net worth to be in ten years? When you retire?