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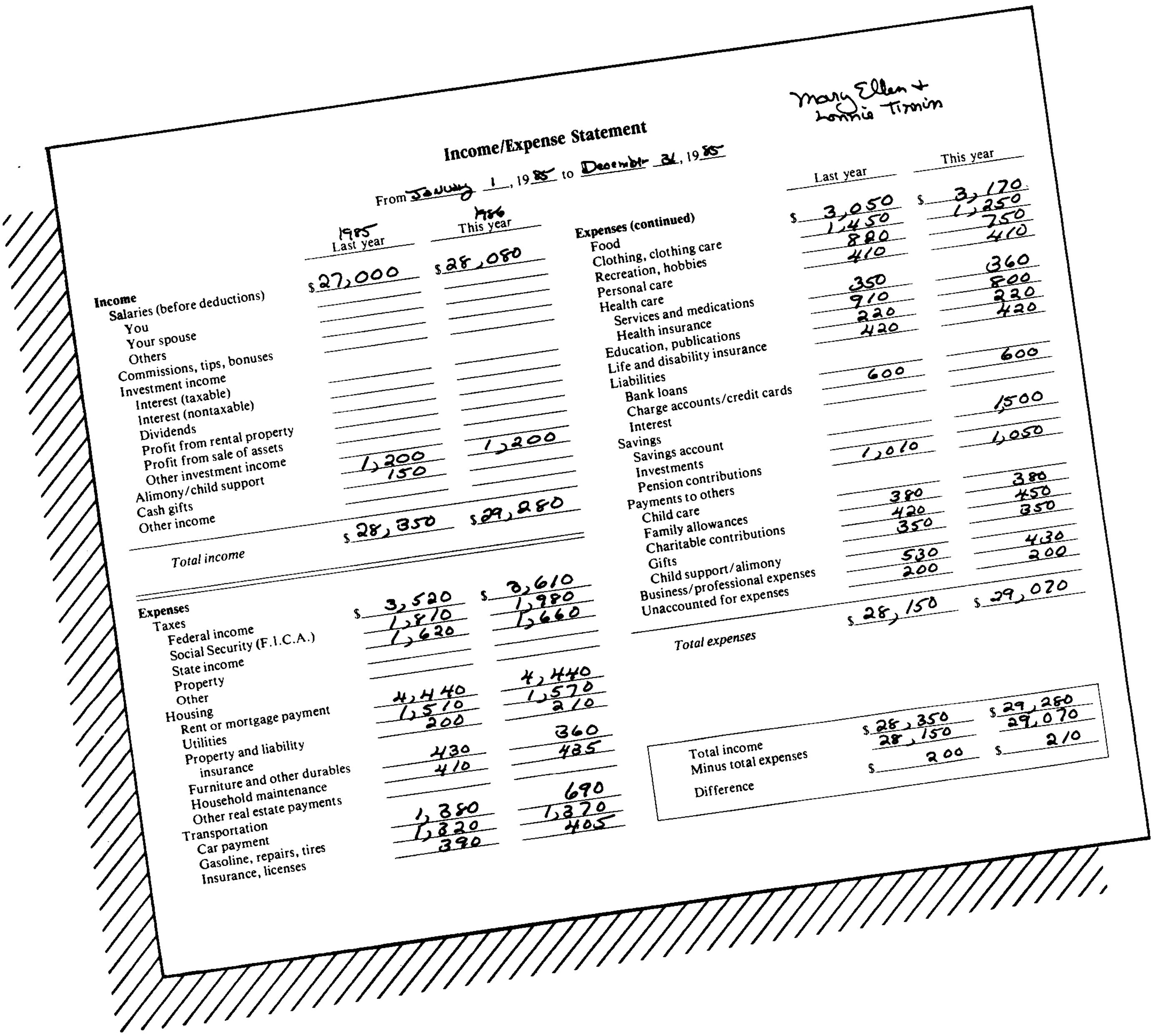
# Financial Planning

## *How to Prepare an Income/Expense Statement*





Mary Ellen + Lonnie Timm

**Income/Expense Statement**

From January 1, 1985 to December 31, 1985

| | 1985 Last year | 1986 This year |
|---|---|---|
| **Income** | | |
| Salaries (before deductions) | | |
| You | $27,000 | $28,080 |
| Your spouse | | |
| Others | | |
| Commissions, tips, bonuses | | |
| Investment income | | |
| Interest (taxable) | | |
| Interest (nontaxable) | | |
| Dividends | | |
| Profit from rental property | | |
| Profit from sale of assets | | |
| Other investment income | 1,200 | 1,200 |
| Alimony/child support | 150 | |
| Cash gifts | | |
| Other income | | |
| *Total income* | $28,350 | $29,280 |
| **Expenses** | | |
| Taxes | | |
| Federal income | $3,520 | $3,610 |
| Social Security (F.I.C.A.) | 1,810 | 1,980 |
| State income | 1,620 | 1,660 |
| Property | | |
| Other | | |
| Housing | | |
| Rent or mortgage payment | 4,440 | 4,440 |
| Utilities | 1,510 | 1,570 |
| Property and liability insurance | 200 | 210 |
| Furniture and other durables | | 360 |
| Household maintenance | 430 | 435 |
| Other real estate payments | 410 | |
| Transportation | | |
| Car payment | 1,380 | 690 |
| Gasoline, repairs, tires | 1,820 | 1,370 |
| Insurance, licenses | 390 | 405 |

| | Last year | This year |
|---|---|---|
| **Expenses (continued)** | | |
| Food | $3,050 | $3,170 |
| Clothing, clothing care | 1,450 | 1,250 |
| Recreation, hobbies | 880 | 750 |
| Personal care | 410 | 410 |
| Health care | | |
| Services and medications | 350 | 360 |
| Health insurance | 910 | 800 |
| Education, publications | 220 | 220 |
| Life and disability insurance | 420 | 420 |
| Liabilities | | |
| Bank loans | 600 | 600 |
| Charge accounts/credit cards | | 1,500 |
| Interest | | |
| Savings | | |
| Savings account | 1,010 | 1,050 |
| Investments | | |
| Pension contributions | | |
| Payments to others | | |
| Child care | 380 | 380 |
| Family allowances | 420 | 450 |
| Charitable contributions | 350 | 350 |
| Gifts | | |
| Child support/alimony | 530 | 430 |
| Business/professional expenses | 200 | 200 |
| Unaccounted for expenses | | |
| *Total expenses* | $28,150 | $29,020 |

| | | |
|---|---|---|
| Total income | $28,350 | $29,280 |
| Minus total expenses | 28,150 | 29,070 |
| Difference | $200 | $210 |

Extension Circular 1229 / July 1985

**Oregon State University Extension Service**

Do you wish you could save money to reach long-term goals, but all your funds seem to be used for everyday living expenses? An income/expense statement can help you discover where your income comes from and where it goes. These statements (also known as personal income or cash flow statements) are a record of your finances.

By listing your sources of income and expenditures over the past year, you see how you have spent your money. And that can be the basis for deciding if you want to spend the same way this year, or, if not, what changes you want to make.

# Do you need one?

Income/expense statements provide a picture of how you have spent your money for a given period in the past. This picture helps you compare income and expenditures to your values and goals. Some items or activities are not as important to you as other items. You want to use your money for those items and activities you and your family consider most important.

Some goals, such as a down payment for a home or a college education, require a long-term saving plan. An income/expense statement is a tool for determining where to trim expenditures in order to increase funds for saving or spending.

Your statement might indicate, for example, that you spent $1,100 on clothing last year. Saving money for a home might be so important to you, that you would decide to spend only $700 on clothing next year, and put the balance into savings.

Some expenditures are more difficult to trim than others; an income/expense statement helps you see and compare all your expenditures as well as your sources and level of income.

Income/expense statements are useful primarily to those families that are trying to control expenditures, so that they can create a source of funds for reaching long-term goals.

An income/expense statement is not the same as a net worth statement or a budget. A net worth statement calculates your financial status at a 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 12 months.

A net worth statement lists the amount you still owed on your car at the end of the net worth year; an income/expense statement will tell you the total amount you paid in car payments in the past year.

A personal budget is a plan for future expenditures and income; it can also be a running record that monitors expenditures and income—or it can be both. An income/expense statement is primarily a record of past expenditures, but it can also incorporate future planning by including a column for future or "this year's" projections.

While income/expense statements summarize income and expenditures over a longer period of time (usually a year) and include future plans for a year, a budget usually controls spending for a shorter period (a week or a month). Therefore, a weekly or monthly budget can contain more detail about the nature of income and of expenditures.

# How do you prepare it?

Many people calculate their income/expense statement around January 1st, using figures from the previous calendar year. Another method is to do it in April to take advantage of the income and expense calculations completed for tax purposes. You can start and end an income/expense statement in any month and for periods other than a year.

You'll find an example of an income/expense statement form on page 7. A family would begin by listing its sources of income in the "Last year" 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 deposits in your checkbook. Remember to list all sources of income, including money from fellowships or scholarships, interest on tax-free municipal bonds, and gifts.

The information about taxes is available on your tax return and on your paycheck stubs.

The fixed expenses are the easiest categories to calculate. These expenses require a regular payment of set amounts on predictable dates throughout the year—and it's not easy to change these amounts.

Some examples of fixed expenses are rent or mortgage payments, insurance, car payments, license fees, loan payments, alimony, child support payments, and child care costs.

Variable expenses, in contrast, can occur regularly or occasionally. The amount of the expense varies, depending on the outside demands on the family and the family's choices.

The same expense category can be both fixed and variable. For example, in the category of utilities, a family might pay a set or fixed charge for local telephone service and a variable amount for long distance calls. The same expense might be variable for one family, fixed for another. The Smiths have a set monthly local telephone rate (fixed), while the Browns have measured local service (variable).

The most convenient source of information for fixed expenses is your checkbook record. Multiply the amount of the fixed payment times the number of times you paid it during a year and enter the amount in the "Last year" column.

For variable expenses, list on pieces of paper the categories of variable expenses (clothing, gasoline, car repairs, hobbies, food, etc.). Then go through your check register and record the amount of each expenditure under the appropriate category.

If you find that checks were made out to Mastercharge, Visa, or a department store for credit purchases, use your billing statement to determine how much goes into which categories. If you had finance charges for your credit purchases, list them on a page titled "Interest."

For checks made out for cash, list the amount under the heading "Unaccounted-for cash." If this category becomes a high proportion of your past expenditures, try to reconstruct an estimate of where this cash went.

To make this estimate, keep track of your cash expenditures for 1 week. You might find that during this week you spent one-fourth of your cash on gas, one-half on lunches out and coffee breaks, and the other one-fourth on groceries you purchased on the way home from work. Use these same proportions to divide the total amount in your "Unaccounted-for cash" category into the appropriate expenses.

After you've gone through your checkbook, add up the expenditures in each category and enter the totals on your income/expense statement. Then add all the income and all the expenses.

If your total income is greater than your total expenses, the difference should be the balance in your checkbook and/or cash on hand. (If you came out with a surplus on paper—but there's none in your checkbook—you probably underestimated your expenditures.)

On the other hand, if your expenses are greater than your income, you might have dipped into savings, taken out a loan, or otherwise underestimated your income.

The sample income/expense statement form is good for getting started, but after you've used it, you'll probably want to create your own categories to fit your family. You might want a category called "Meals out" or a special category just for "Sports equipment." And you might not need some of the categories listed on this form.

Likewise, families with different styles of financial management can use the statement in different ways. A married couple with pooled income would probably fill out just one sheet, and a couple keeping separate accounts might fill out separate statements. Families with separate accounts may also fill out a third sheet for joint income or joint expenses.

# How do you use it?

To see how you might use the income/expense statement, let's consider the fictitious account of Mary Ellen Tinnin. Mary Ellen and her 16-year-old son, Lonny, have a recurring question—"Where does all the money go?"

Employed as a registered occupational therapist for the past 11 years, her salary of $27,000 is more than enough to meet living expenses. Yet she has been unable to save a down payment for a home of her own.

To begin to get control over her personal finances, Mary Ellen estimated her income and expenses for "Last year," and she made some predictions about how she would like to spend her income "This year." Mary Ellen's worksheet is printed on page 5.

To calculate her income and expenses for last year, Mary Ellen followed the process outlined earlier. The difference between her total expenses and total income is $200, which is the amount of her checkbook balance.

Her goal for filling out the statement is to discover a way to save money toward a down payment on a house. Although she was unable to save any money last year, Mary Ellen would like to save $1,500 this year.

As Mary Ellen studies her record of last year's finances, she asks the following questions:

- Is my salary likely to increase this year, or can I increase the level of my commissions, tips, and bonuses?
- Could I increase my interest and dividend income by improving my investment and/or saving strategies?
- Am I willing to work overtime or take additional jobs to increase my income?
- What strategies could I adopt to lower my tax bill?
- What rate of inflation do I expect this year?
- Which are the biggest categories of expenditures? Do these expenditures coincide with my values and goals?
- Are there so many fixed items in my expense statement that there is little room for flexibility?
- Is there "fat or flab" in my budget—expenditures that result from lack of planning or hasty buying?
- Could I economize by providing some of my own services?
- Do I need special savings accounts for large annual or semiannual bills such as insurance, real estate taxes, home furnishings, holiday, or vacation expenditures?
- How will I protect any surplus, so it turns into savings instead of being "eaten" by household expenditures?

Mary Ellen knows that her salary will increase by 4 percent in the coming year. Although overtime work could increase her income, she decides that the leisure time she spends with her son and friends is more important. Based on the rate of inflation during the last 2 years and considering economists' forecasts for this year, Mary Ellen figures 4 percent inflation for next year.

Mary Ellen projects a modest increase in her taxes for this year. Her projection is a balance between conflicting newspaper reports of no tax increases and tax increases, coupled with her own realization that she will have more income than last year.

Next, Mary Ellen identifies categories of expenditures that she is unwilling to reduce. For example, she does not want to reduce food expenditures; she likes her present standards for menus, diet, style and type of food.

Because Mary Ellen is predicting about 4 percent inflation for next year, she must increase the allocation for food from $3,050 per year to $3,170 per year to maintain their present standard of eating.

For some expenditures, Mary Ellen has projected no change. She has been fortunate in signing a lease for the same rent as last year. For the categories of personal care, education, gifts, and family allowance, listing the same expenditure level as last year will actually require slightly fewer or more careful purchases, since no allowance has been made for the expected 4 percent inflation in prices.

Mary Ellen will have made her last car payment by the middle of the year. When the car payments stop, she plans to continue the automatic withdrawal from her paycheck of an amount equal to her car payment, but now the money will go into her credit union savings account.

Mary Ellen and Lonny agree that they are willing to lower their expenditures for clothing, furniture, and recreation and hobbies because they value a home of their own more than additional purchases in these categories.

Health insurance expenses are reduced by Mary Ellen's plan to buy less expensive hospital coverage through a professional group plan. She hopes to reduce her professional expenses by piggybacking several conferences that are occurring in adjacent locations.

Mary Ellen now has a plan for spending for the coming year. This plan is based on her experience with her own income and expenditures during the previous year. The next step is to divide each of the projections by 12 and use the results to form a monthly budget. The purpose of the budget, like the purpose of the income/expense statement, is to help create and implement a plan for reaching long-term financial objectives.

Mary Ellen +
Lonnie Timmin

# Income/Expense Statement

From January 1, 19 85 to December 31, 19 85

| | 1985 Last year | 1986 This year |
|---|---|---|
| **Income** | | |
| Salaries (before deductions) | $ 27,000 | $ 28,080 |
| You | | |
| Your spouse | | |
| Others | | |
| Commissions, tips, bonuses | | |
| Investment income | | |
| Interest (taxable) | | |
| Interest (nontaxable) | | |
| Dividends | | |
| Profit from rental property | | |
| Profit from sale of assets | | |
| Other investment income | | |
| Alimony/child support | 1,200 | 1,200 |
| Cash gifts | 150 | |
| Other income | | |
| *Total income* | $ 28,350 | $ 29,280 |

| | 1985 Last year | 1986 This year |
|---|---|---|
| **Expenses** | | |
| Taxes | | |
| Federal income | $ 3,520 | $ 3,610 |
| Social Security (F.I.C.A.) | 1,810 | 1,980 |
| State income | 1,620 | 1,660 |
| Property | | |
| Other | | |
| Housing | | |
| Rent or mortgage payment | 4,440 | 4,440 |
| Utilities | 1,510 | 1,570 |
| Property and liability insurance | 200 | 210 |
| Furniture and other durables | 430 | 360 |
| Household maintenance | 410 | 435 |
| Other real estate payments | | |
| Transportation | | |
| Car payment | 1,380 | 690 |
| Gasoline, repairs, tires | 1,820 | 1,370 |
| Insurance, licenses | 390 | 405 |

| | Last year | This year |
|---|---|---|
| **Expenses (continued)** | | |
| Food | $ 3,050 | $ 3,170 |
| Clothing, clothing care | 1,450 | 1,250 |
| Recreation, hobbies | 820 | 750 |
| Personal care | 410 | 410 |
| Health care | | |
| Services and medications | 350 | 360 |
| Health insurance | 910 | 800 |
| Education, publications | 220 | 220 |
| Life and disability insurance | 420 | 420 |
| Liabilities | | |
| Bank loans | | |
| Charge accounts/credit cards | 600 | 600 |
| Interest | | |
| Savings | | |
| Savings account | | 1,500 |
| Investments | | |
| Pension contributions | 1,010 | 1,050 |
| Payments to others | | |
| Child care | | |
| Family allowances | 380 | 380 |
| Charitable contributions | 420 | 450 |
| Gifts | 350 | 350 |
| Child support/alimony | | |
| Business/professional expenses | 530 | 430 |
| Unaccounted for expenses | 200 | 200 |
| *Total expenses* | $ 28,150 | $ 29,070 |

| | Last year | This year |
|---|---|---|
| Total income | $ 28,350 | $ 29,280 |
| Minus total expenses | 28,150 | 29,070 |
| Difference | $ 200 | $ 210 |

# For more information

Bailard, T.E., D.L. Biehl, and R.W. Kaiser, *Personal Money Management* (Chicago: Scientific Research Associates, 1983). The chapter on record keeping includes a sample income/expense statement and statistics on typical expenses and incomes for U.S. families. Other chapters cover budgeting, borrowing and banking, mutual funds, and fixed-dollar investments.

Harris, M., "Getting Control of Your Cash Flow," in *Money Guide: Everything You Need to Know About Personal Finance,* Time, Inc. (Box 999, Radio City Station, New York, NY 10019), 1984. This special publication by the editors of *Money* magazine includes detailed instructions on tracing cash flow (income and expenses). Other chapters cover portfolio balance, real estate investment, tax-cutting strategies, and using a home computer for personal record keeping.

*How to Prepare a Personal Financial Statement,* Consumer Information Report 5, Bank of America (Box 37128, San Francisco, CA 94137), December 1982. This one-page folder, available from the Bank of America, includes clear and concise forms for both net worth and income/expense calculations.

Phalon, R., *Your Money: How to Make It Work Harder Than You Do* (New York: St. Martin's Press, 1979). Stresses the role of record keeping in protecting and increasing your assets. Also shows how income/expense statements and other record-keeping documents are necessary for income tax management.

**OSU Extension publications**

*Financial Planners: Do You Need One?* Oregon State University Extension Service Circular 1225 (Corvallis, 1985). Discusses costs and types of planners, characteristics of a good plan, planners' education and certification, selecting a planner, planning on your own. Single copy 50¢ plus 25¢ postage from Bulletin Service, OSU, Corvallis 97331.

*Financial Planning: How to Prepare a Net Worth Statement,* Oregon State University Extension Service Circular 1230 (Corvallis; in press, 1985). Calculating and interpreting the statement; forms to use in preparing your own.

*A Guide to Budgeting for the Family,* Pacific Northwest Extension publication PNW 237 (Pullman, Washington State University, 1985). Estimating income and expenses, setting up a budget, set-asides for emergencies, comparing income and expenses, carrying out a budget. Single copy 50¢ plus 25¢ postage from Bulletin Service, OSU, Corvallis 97331.

*Your Will,* Oregon State University Extension Service Bulletin 839 (Corvallis, 1982). This helps you decide if you need a will, and it explains how property passes at death, when there is or is not a will. Single copy 25¢ plus 25¢ postage from Bulletin Service, OSU, Corvallis 97331.

# Income/Expense Statement

From __________ ____, 19____ to __________ ____, 19____

| | Last year | This year |
|---|---|---|
| **Income** | | |
| Salaries (before deductions) | $ | $ |
| You | | |
| Your spouse | | |
| Others | | |
| Commissions, tips, bonuses | | |
| Investment income | | |
| Interest (taxable) | | |
| Interest (nontaxable) | | |
| Dividends | | |
| Profit from rental property | | |
| Profit from sale of assets | | |
| Other investment income | | |
| Alimony/child support | | |
| Cash gifts | | |
| Other income | | |
| *Total income* | $ | $ |

| | Last year | This year |
|---|---|---|
| **Expenses** | | |
| Taxes | | |
| Federal income | $ | $ |
| Social Security (F.I.C.A.) | | |
| State income | | |
| Property | | |
| Other | | |
| Housing | | |
| Rent or mortgage payment | | |
| Utilities | | |
| Property and liability insurance | | |
| Furniture and other durables | | |
| Household maintenance | | |
| Other real estate payments | | |
| Transportation | | |
| Car payment | | |
| Gasoline, repairs, tires | | |
| Insurance, licenses | | |

| | Last year | This year |
|---|---|---|
| **Expenses (continued)** | | |
| Food | $ | $ |
| Clothing, clothing care | | |
| Recreation, hobbies | | |
| Personal care | | |
| Health care | | |
| Services and medications | | |
| Health insurance | | |
| Education, publications | | |
| Life and disability insurance | | |
| Liabilities | | |
| Bank loans | | |
| Charge accounts/credit cards | | |
| Interest | | |
| Savings | | |
| Savings account | | |
| Investments | | |
| Pension contributions | | |
| Payments to others | | |
| Child care | | |
| Family allowances | | |
| Charitable contributions | | |
| Gifts | | |
| Child support/alimony | | |
| Business/professional expenses | | |
| Unaccounted for expenses | | |
| *Total expenses* | $ | $ |

| | Last year | This year |
|---|---|---|
| Total income | $ | $ |
| Minus total expenses | | |
| Difference | $ | $ |

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**Extension's home economics program** offers educational opportunities to help individuals and families manage their resources to meet needs for food, clothing, finance, shelter, parenting, and human relationships.

**This publication** was prepared by Jane Meiners, instructor, and Alice Mills Morrow, Extension family economics specialist, Department of Family Resource Management, Oregon State University. The mention of trade-name services does not mean an endorsement of these services by the OSU Extension Service, and the fact that other services are not mentioned does not mean any discrimination against them.

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