Managing Your Money: Where Does All the Money Go?

Circular 592

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Cooperative Extension Service • College of Agricultural, Consumer and Environmental Sciences

INTRODUCTION

Do you know where your money goes? You would probably answer, "House payments, car loan, utility bills, and food." But after that, things begin to get a bit fuzzy about where the rest goes, right?

After you have set your spending goals, as you did in Circular 591, *Managing Your Money: Where Do I Begin?* (available at http://aces.nmsu.edu/pubs/_circulars/CR-591.pdf), the next step is to learn where you are spending money. Then you can make a realistic financial plan. This might be a hard job for some people; others will find it very rewarding. No matter how you feel, it must be done before you can start to develop your own plan. This information will help you improve your future financial decisions. Invest the time now for a better payoff later.

WHAT DO YOU OWE?

You must list all of your credit and debt obligations before you can analyze your total financial situation. Use Worksheet 1 to gain a clear idea of all of your credit and debt obligations—both loans and credit card use. After that, 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.

Next, use Worksheet 2 to track your income and expenses (cash flow). For the most accurate look at your budget, you should keep records of an entire year's income and expenses. That's really a lot of work. But to help you learn what records you will need, Worksheet 2 provides space for two months. For additional worksheets, please refer to Guide G-258, *Managing Your Family's Money* (available at http://aces.nmsu.edu/pubs/_g/G-258.pdf).

First, gather all of your monthly bills, receipts, and check ledgers. They can be from last month, the current month, or both. These records will help you monitor your monthly spending. 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.

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.

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

If you recently became 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 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 your income does not cover all expenses, see what you might do to decrease your expenses or increase your income. Take a look at your budget to see if you can find some spending leaks. We'll be discussing this problem in Circular 593, *Managing Your Money: Stop Spending Leaks* (available at http://aces.nmsu.edu/pubs/_circulars/CR593.pdf).

It is critical to try to control fixed expenses before you commit to an additional expense. You may need to ask yourself some questions when considering new expenses: 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 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 made toward your 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, or settle a divorce.

Net Worth = Total Assets – Total Liabilities

Use Worksheet 3 to calculate your total financial net worth at this moment. List all of your assets–the things you own. List the value of things 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.

Remember to list dollar amounts according to the portion of wealth or debt that you are responsible for. For example, if you share a second house ($1 million value with $200,000 mortgage) with your spouse at a 60%:40% ratio, record $600,000 for the second house's asset value and $120,000 for its mortgage.

A shortcut to estimating your net worth is by answering these questions.

1. Suppose you were to sell all of your major possessions (including your home), turn all of your investments and other assets into cash, and pay all of your debts (following the portions you are responsible for). Would you have something left over, break even, or be in debt?
2. If you would not break even, how much would the difference be?

There are a few important things to note with this method. If you answered "in debt," your net worth value will be negative in the answer you provided for the second question. This shortcut method tends to be less accurate than a full analysis of your assets and liabilities, but it provides a very quick and rough estimation of your net worth.

WHAT ARE YOUR ASSETS?

Assets are any financial or material possessions that have monetary value. They may be divided into financial and non-financial (or physical) assets. Remember that these must be valued at the current market value, or what you could sell them for today, not what you paid for them, what you "hope" they are worth, or what you could get if you waited for the ideal time to sell. They include:

Financial Assets

- 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 you (but only if you can be reasonably sure they will repay)
- Annuities, retirement plans
- Employee benefits, such as company stocks

Non-Financial or Physical Assets

- Your home
- Other real estate, business interests
- Automobiles, trucks, other vehicles
- Household furnishings, clothing, antiques, jewelry, books, coins, artwork

WHAT ARE YOUR LIABILITIES?

Liabilities are the financial obligations or debts you owe to other people or institutions. The information you gathered for Worksheet 1 should help you fill 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)
- Department store and credit card debts
- Taxes
- Unpaid bills (medical, utilities)
- Any other liabilities

Total your assets and your liabilities. Subtract the liabilities from the assets. The result is 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 financial 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 because other people have 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, realize that a negative net worth statement may easily happen to someone just starting out on their own or to young families. 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, decreased 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 big 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 to reach the goals you have set for yourself and your family.

For the best overall picture of your finances, it is important to keep income and expense records for a whole year.

For additional information, see Guide G-258, *Managing Your Family's Money*, available at http://aces.nmsu.edu/pubs/_g/G-258.pdf.

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Worksheet 1

How Much Do You Owe?

This worksheet will help you analyze your credit and debt obligations. It is important for you to gather all of this information before you begin developing a money management plan. Do not include mortgage payments. Complete all the blanks that apply. Include all loans, credit cards, and other debts.

Company	Amount Still Owed	Due Date	Months Left to Pay	Monthly Payment	*APR	Amount Past Due

Total Amount Still Owed: $______________________________

***APR = Annual Percentage Rate**

Note: The average family should not commit more than 15 to 20% of its take-home pay to pay off consumer debts. If your family is larger, you may need to keep this percentage even lower.

To determine how much of your take-home pay goes toward consumer debt repayment, you need to calculate your consumer debt-service ratio.

$$\text{Consumer Debt-Service Ratio} = \frac{\textbf{Consumer Debt Repayment (monthly)}}{\textbf{Disposable Income (monthly)}}$$

Consumer debt equals monthly repayments for all **non-mortgage** consumer debts, including home-equity credit-line loans.

Take-home pay, sometimes called net pay or disposable income, is the income available after mandatory deductions for taxes and insurance. Irregular sources of earned or unearned income, such as interest earned or overtime earnings, are not included in disposable income for these calculations.

Worksheet 2

Income and Expenses

	Month 1	Month 2
Income		
Your take-home pay		
Spouse's/partner's take-home pay		
Child support/alimony payments		
Unemployment insurance		
TANF (Temporary Assistance for Needy Families)		
Retirement pension		
Social Security		
Interest dividends		
Other (list)		
Total Income (I)		
Expenses		
Fixed Expenses		
Rent/mortgage (principal, taxes, 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		

Worksheet 2 (continued)

Income and Expenses

	Month 1	Month 2
Flexible Expenses		
Utilities (electric, gas, water, phone, fuel oil)		
Total credit card payments (see Worksheet 1)		
Auto upkeep		
Food costs (at home and 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 (E)		
Total Income – Total Expenses (I – E)		

Worksheet 3

Net Worth Statements For Three 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)	________	________	________
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 liabilities	$ ________	$ ________	$ ________

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.

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