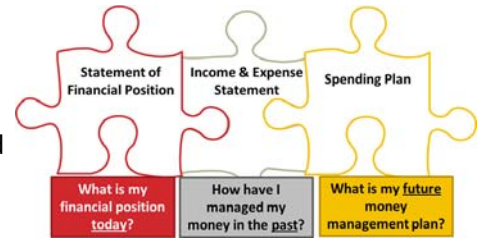


Income and Expense Statement

“Take Charge of Your Finances” Advanced Level

Do you know where your money is coming from and where it is going? The Income and Expense Statement is a financial tool which helps you to look at your past transactions to determine how you are earning and spending your money.

The **Income and Expense Statement** lists and summarizes income and expense transactions that have taken place over a specific period of time, usually a month or year. Whereas a statement of financial position documents your present financial position and net worth, an Income and Expense Statement documents your past financial transactions; it tells you where your money came from and where it went.



An Income and Expense Statement is an important money management tool. It will help you objectively evaluate past financial decisions. Evaluating past financial decisions helps to improve your financial well-being by setting goals, reducing money stress, and increasing net-worth. An Income and Expense Statement includes three components: income, expenses, and net gain or net loss.

Income

| Income | Amount |
|---|--------|
| Earned Income | |
| Wages or salary before deductions | |
| Unearned Income | |
| Interest earned this time period | |
| Money from savings and investments to help pay expenses during this time period | |
| Received Income from Government Programs | |
| Total Income | \$ |

Income is money received. In addition to working for pay, there are several other types of income. Income may be divided into three categories: earned, unearned and received from government programs.

Earned income

Any money earned from working for pay such as:

- Wages or salary before withholding - The amount of wages or salary you earn before any deductions are taken out for taxes or other payroll deductions should be recorded. This amount is known as your **gross income**. It is important to record your gross income and not your **net income** (take home pay) in the income section, because taxes and other deductions are listed as an expense in the expense section.
- Commissions/tips/bonuses – These are earned from working for pay and are also included as earned income. Commissions are commonly earned by people that work in sales and are usually paid in addition to a wage or salary. Tips are commonly earned by those that work in customer service fields, such as restaurant servers. Some people may receive a bonus, which is a sum of money in addition to their wage or salary.
- Tax refunds - Tax refunds received from the government are considered earned income.

Net Income

Employer Address City, State Zip Code

Evan Jones

One-thousand seventy seven dollars and 60/100

Employer

\$1277.60

Income, continued

Unearned Income

Income received from sources other than employment such as:

- Interest earned - Any interest from depository institution accounts earned during the time period of the Income and Expense Statement.
- Investment earnings – Any money earned from investments during the time period of the Income and Expense Statement.
- Sales of assets - The amount of money earned from the sale of an asset.
- Money from savings and investments – Any money from savings and investments that was used to pay for expenses during the time period.
- Scholarships/grants – Money received from scholarships and grants from non-government sources to help pay for education.
- Money from others – Any money received from others, such as friends and family.
- Child support – Money received from a parent to help care for a child.

Received Income from Government Programs

There are many different government programs that can offer a form of income, usually temporarily. Examples of government programs include Workers' Compensation, Social Security, and unemployment benefits. Scholarships and grants may also be provided by the government and can be included in this section of income.



What forms of income do you have?

Expenses

| <u>Expenses</u> | |
|--|----|
| <i>Deductions Often Taken from Paychecks</i> | |
| Contributions to retirement programs (401k, 403b, pension, IRA) | |
| Federal income tax and state income tax | |
| Social Security and Medicare | |
| <i>Saving and Investing (Pay Yourself First)</i> | |
| Contribution to savings and investments | |
| <i>Insurance Premiums</i> | |
| Health, automobile, home or renters, life | |
| <i>Housing Costs</i> | |
| <i>Transportation Costs</i> | |
| <i>Food Costs</i> | |
| <i>Family Member Care</i> | |
| <i>Communication and Computers</i> | |
| Telephone landline, cell phone, Internet, cable/satellite television | |
| <i>Medical Costs Not Covered by Insurance</i> | |
| <i>Clothing and Personal Care</i> | |
| <i>Educational Expenses</i> | |
| <i>Pet Care</i> | |
| <i>Entertainment</i> | |
| <i>Gifts and Charitable Contributions</i> | |
| <i>Credit Costs</i> | |
| Student loan, credit card, other loan payments | |
| Total Expenses | \$ |
| Net Gain or Net Loss (Income less Expenses) | \$ |

An **expense** is money spent. Everyone's expenses will be a little different based on values, but all expenses can be divided into the following categories: taxes, saving and investing, insurance, housing, transportation, food, and other.

Taxes:

- Includes income, payroll, and property taxes paid. Most income and payroll taxes are deducted directly from a person's paycheck, so you may need to refer to your paycheck stub to find the amount you pay. Property taxes are included within the category that the tax applies, such as housing and transportation. Sales and excise tax are included within the costs of the specific items listed on the Income and Expense Statement.

Expenses, continued

Saving and Investing

Includes any money saved or invested for future use. **Savings** is the portion of current income not spent on consumption. Invested money commonly includes money invested into a retirement account. Some retirement accounts are sponsored by employers, so the amount invested is deducted directly from a person's paycheck and can be found on a paycheck stub (just like income and payroll taxes). It is an expense when you are adding money to savings or investments, because it is income being saved for future (not current) use.

Insurance

Insurance is a product that transfers risk from an individual to an insurance company or organization. Insurance helps pay for large unexpected financial losses. There are many types of insurance, but the most common are health, property and liability (purchased to cover losses related to home and automobile), life, and disability.

Housing

There are many expenses associated with housing. Perhaps the largest housing expense is the monthly payment that is made to either pay rent or a **mortgage** (a payment to pay off the loan used to purchase a form of housing). In addition to the monthly payment, utilities such as electricity, water, and garbage must be paid. If you rent, some or all utilities may be included within your rent. Property taxes, maintenance costs, and household furnishings (furniture, decorations) are other costs associated with housing. Home and renter's insurance is another housing-related cost that may be included in the insurance category.

Transportation

There are two main types of transportation that people rely upon: public transportation and a personal automobile. If you rely on public transportation, your expenses may include taxi, bus, or subway fares. If you used a loan to purchase an automobile, you will have to make a loan payment. Other expenses associated with a personal automobile include fuel, license and registration (due annually), repairs and maintenance, and insurance (which is included in the Insurance section).

Food

The most common expenses associated with food include items from the grocery store, meals eaten at restaurants, and snacks away from home (such as soda or coffee). In addition to actual food items, this category could include kitchen supplies, such as dish soap and napkins.



What are five expenses you currently have?

Expenses, continued

Other

There are many other items that people spend money on. These items could include:

- Family member care is an expense if a person has children or other dependents such as an elderly parent. This could include daycare costs or allowances for children.
- Communication and computers could include cell phones and internet services.
- Medical costs not covered by insurance could include monthly prescriptions or over-the-counter medications.
- Clothing and personal care could include shampoo, toothpaste, haircuts, cosmetics, laundry detergent, laundromat charges, etc.
- Educational expenses could include tuition for private schools or higher education, private lessons or tutoring, supplies (paper, books, pens, etc.), and dues to professional organizations.
- Pet care could include pet food, veterinary costs and medicine, toys, grooming, and boarding.
- Entertainment varies for every person depending upon their values and what they enjoy doing, but entertainment could include cable or satellite television, movies, music, and vacations.
- Gifts and charitable contributions could include gifts to family members or a donation to a charitable cause.
- Credit costs could include additional payments towards liabilities not included in other income and expense categories such as student loan payments and credit card payments.

Each individual will have different values, needs and wants that will determine which expense categories should be included in their Income and Expense Statement. This statement should be customized to reflect the individual or family. The more specific your categories are the greater chance you have of including all of your expenses.



What is one expense that you could reduce or eliminate today?

Tracking Income and Expenses

A written system is more accurate than a mental system. We can easily trick ourselves into thinking we earn more than we do and we spend less than we do. With all of the possibilities for income and expenses tracking them can be overwhelming and it is important to find a system that works well for you. Consider some of these options for tracking your income and expenses:

- Record in writing - If you are creating an Income and Expense Statement for a shorter period of time (say a month) you may be able to carry a small notebook and write down each source of income and expense as it occurs.
- Smartphone - If you own a smartphone, you could also use the notepad feature or another application to record income and expenses.

Tracking Income and Expenses, continued

- Keep receipts - To track expenses, you could keep all of your receipts for a specific period of time.
- Depository institution account statements - If your depository institution offers online banking, the online banking site will most likely include a record of all of your account statements. If you don't have access to this feature, then make sure to keep a record of the statements mailed to you every month.
- Money management computer software program - If you use a money management computer software program, such as Quicken, the program will create an Income and Expense Statement for you as long as you have been diligent about entering your financial information into the program.



What method of tracking income and expenses would work best for you? Why?

Net Gain or Net Loss

| Income and Expense Statement for: | |
|---|--------|
| Time Period: | |
| | Amount |
| Income | |
| Earned Income | |
| Wages or salary before deductions | |
| Unearned Income | |
| Interest earned this time period | |
| Money from savings and investments to help pay expenses during this time period | |
| Received Income from Government Programs | |
| Total Income | \$ |
| Expenses | |
| Deductions Often Taken from Paychecks | |
| Contributions to retirement programs (401k, 403b, pension, IRA) | |
| Federal income tax and state income tax | |
| Social Security and Medicare | |
| Saving and Investing (Pay Yourself First) | |
| Contribution to savings and investments | |
| Insurance Premiums | |
| Health, automobile, home or renters, life | |
| Housing Costs | |
| Transportation Costs | |
| Food Costs | |
| Family Member Care | |
| Communication and Computers | |
| Telephone landline, cell phone, Internet, cable/satellite television | |
| Medical Costs Not Covered by Insurance | |
| Clothing and Personal Care | |
| Educational Expenses | |
| Pet Care | |
| Entertainment | |
| Gifts and Charitable Contributions | |
| Credit Costs | |
| Student loan, credit card, other loan payments | |
| Total Expenses | \$ |
| Net Gain or Net Loss (Income less Expenses) | \$ |

Once you have tracked and recorded all of your income and expenses for the time period desired, you will subtract your expenses from your income. You want income to be greater than expenses. This is known as a **net gain** and it means you are making more than you are spending and therefore you are living within your means. If you have a net gain you have flexibility for unanticipated expenses and can use that money for savings or other expenses. If your expenses are greater than income, then you have a **net loss** and you are spending more than you are making. For many people, the money used to provide for the gap in income most likely came from borrowing (credit). A net loss will make it challenging to increase your net worth and therefore become more financially secure. If you have a net loss on your Income and Expense Statement then you will want to make some changes to your spending or increase your income. A spending plan (or budget) is the next of the three financial tools that can help you plan your spending.

Income — Expenses = Net Gain or Loss