

## Chapter 2

# Using Financial Statements and Budgets

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## Chapter Outline

### Learning Goals

- I. Mapping Out Your Financial Future**
  - A. The Role of Financial Statements in Financial Planning
  - B. Assessing Your Financial Situation, Plans, and Goals

\*Concept Check\*
- II. The Balance Sheet: How Much Are You Worth Today?**
  - A. Assets: The Things You Own
  - B. Liabilities: The Money You Owe
  - C. Net Worth: A Measure of Your Financial Worth
  - D. Balance Sheet Format and Preparation
  - E. A Balance Sheet for Rick and Beth Fletcher

\*Concept Check\*
- III. The Income and Expense Statement: What We Earn and Where It Goes**
  - A. Income: Cash In
  - B. Expenses: Cash Out
  - C. Cash Surplus (or Deficit)
  - D. Preparing the Income and Expense Statement
  - E. An Income and Expense Statement for Rick and Beth Fletcher

\*Concept Check\*
- IV. Using Your Personal Financial Statements**
  - A. Keeping Good Records
  - B. Managing Your Financial Records
  - C. Tracking Financial Progress: Ratio Analysis
  - D. Balance Sheet Ratios
  - E. Income and Expense Statement Ratios

\*Concept Check\*
- V. Cash In and Cash Out: Preparing and Using Budgets**
  - A. The Budgeting Process
  - B. Estimating Income

- C. Estimating Expenses
  - D. Finalizing the Cash Budget
  - E. Dealing with Deficits
  - F. A Cash Budget for Rick and Beth Fletcher
  - E. Using Your Budgets
- \*Concept Check\*

## **VI. The Time Value of Money: Putting a Dollar Value on Financial Goals**

- A. Future Value
- B. Future Value of a Single Amount
- C. Future Value of an Annuity
- D. The Rule of 72
- E. Present Value
  - 1. Present Value of a Single Amount
  - 2. Present Value of an Annuity
  - 3. Other Applications of Present Value

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### **Summary**

#### **Financial Planning Exercises**

#### **Applying Personal Finance**

What's Your Condition?

#### **Critical Thinking Cases**

- 2.1 The Lawrences' Version of Financial Planning
- 2.2 Alex Mikhailov Learns to Budget

#### **Money Online!**

## **Major Topics**

We can achieve greater wealth and financial security through the systematic development and implementation of well-defined financial plans and strategies. Certain life situations require special consideration in our financial planning. Financial planners can help us attain our financial goals, but should be chosen with care. Personal financial statements work together to help us monitor and control our finances in order that we may attain our future financial goals by revealing our current situation, showing us how we used our money over the past time period, and providing a plan for expected future expenses. Time value of money calculations allow us to put a dollar value on these future financial goals and thereby plan more effectively. The major topics covered in this chapter include:

- 1. The importance of financial statements in the creation and evaluation of financial plans.
- 2. Preparing and using the personal balance sheet to assess your current financial situation.
- 3. The concept of solvency and personal net worth.
- 4. Preparing and using the personal income and expense statement to measure your financial performance over a given time period.

5. The importance of keeping and organizing your records.
6. The use of financial ratios to track financial progress.
7. Developing a personal budget and using it to monitor and control progress toward future financial goals.
8. How to deal with cash deficits.
9. The use of time value of money concepts in putting a dollar value on financial goals.

## Key Concepts

Personal financial statements play an extremely important role in the financial planning process. They can help in both *setting goals* and in *monitoring progress toward goal achievement* to determine whether one is "on track." Budgeting and financial planning guide future outlays. As such, they require projections of future needs, desires, and costs. Setting up a specific set of forecasts is the basis for future success. The following phrases represent the key concepts discussed in the chapter.

1. Personal financial statements
2. Budgets
3. Financial plan
4. Balance sheet equation
5. Types of assets
6. Fair market value
7. Liabilities
8. Net worth
9. Solvency
10. Income
11. Expenses—Fixed and Variable
12. Cash basis
13. Cash surplus or deficit
14. Record keeping
15. Ledger
16. Ratio analysis of financial statements
17. Cash budgets
18. Estimating income
19. Take-home pay
20. Estimating expenses
21. Budget Control Schedule
22. Monitoring and controlling actual expenses
23. Time value of money concepts and calculations
24. Compounding

## Answers to Concept Check Questions

- 2-1. *Personal financial statements* provide important information needed in the personal financial planning process. The balance sheet describes your financial condition at one point in time, while the income and expense statement measures financial performance

over a given time period. Budgets help you plan your future spending. These statements allow you to track and monitor your financial progress so you can set realistic goals and meet them.

- 2-2. The *balance sheet* summarizes your financial position by showing your assets (what you own listed at fair market value), your liabilities (what you owe), and your net worth (the difference between assets and liabilities) at a given point in time. With a balance sheet, you know whether your assets are greater than your liabilities, and by comparing balance sheets for different time periods, you can see whether your net worth is growing.

*Investments* are assets that are acquired to earn a return; they may consist of either real or personal property or financial assets. *Real property* is immovable: for example, land and anything fixed to it, like a building. *Personal property* is movable property—cars, furniture, jewelry, clothing, etc. Whether real or personal property is an investment depends on the character of the property: some you acquire with the expectation that the property will go up in value while other property may be expected to go down in value.

- 2-3. The *balance sheet equation* is:

$$\text{Total Assets} + \text{Total Liabilities} = \text{Net Worth}$$

A family is *technically insolvent* when their net worth is less than zero. This indicates that the amount of their total liabilities is greater than the fair market value of their total assets.

- 2-4. There are basically two ways to achieve an *increase in net worth*. First, one could prepare a budget for the pending period to specifically provide for an increase in net worth by acquiring more assets and/or paying down debts. This is accomplished by planning and requires strict control of income and expenses. A second approach would be to forecast expected increases in the market value of certain assets—primarily investment and tangible property assets. If the market value of the assets increased as expected and liabilities remained constant or decreased, an increase in net worth would result. (Note: Decreases in net worth would result from the opposite strategies/occurrences.)
- 2-5. The *income and expense statement* captures the various financial activities that have occurred over time, normally over the course of a month or a year. In personal financial planning, the statement permits comparison of actual results to the budgeted values.
- 2-6. The term *cash basis* indicates that only items of actual cash income and cash expense within the given period are included on the statement. For example, if you are due to receive a payment for work you have done, you do not count that amount as income until you actually receive it. A credit purchase becomes a liability on the balance sheet as soon as the debt is incurred. However, credit purchases are shown on the income

- statement only when payments on these liabilities are actually made. (Also, if a payment-in-full was not made, only that amount actually paid to reduce the liability is shown on the statement.) These cash payments would be treated as *expenses* because they represent disbursements of cash.
- 2-7. *Fixed* expenses are contractual, predetermined expenses that are made each period, such as rent, mortgage and loan payments, or insurance premiums. *Variable* expenses change each period. These include food, utilities, charge card bills, and entertainment.
- 2-8. Yes, a *cash deficit* appears on an income and expense statement whenever the period's expenses exceed income. Deficit spending is made possible by using up an asset, such as taking money out of savings, or incurring more debt, such as charging a purchase on a credit card.
- 2-9. *Accurate records* are important in the personal financial planning process. Such records help you manage and control your financial affairs, including controlling income and spending, preparing financial statements, filing tax returns, and planning future spending. A sophisticated *financial record keeping and control system* includes: (1) setting up a record book, (2) recording actual income and expenses, (3) balancing accounts periodically, (4) controlling budget expenses, and (5) balancing the books and preparing year-end financial statements.
- 2-10. When *evaluating one's balance sheet*, primary concern should be devoted to the net worth figure since it represents a person's wealth at a given point in time. Attention should also be given to the level of various assets and liabilities to determine whether their level and mix is consistent with one's financial goals.
- In *evaluating one's income and expense statement*, the primary concern should be whether there is a cash surplus or deficit. Consistently having a cash surplus on the income statement means that one's net worth is growing on the balance sheet, because the surplus remaining from one period will then be available to either increase one's assets or decrease one's liabilities.
- It is possible to use a number of ratios to evaluate a balance sheet. However, the solvency ratio and the liquidity ratio are most frequently used. The *solvency ratio* relates total net worth to total assets. It shows, in percentage terms, the degree of market value decline in total assets, which a family could absorb before becoming technically insolvent. This ratio is a good indicator of one's exposure to potential financial problems. The *liquidity ratio* relates liquid assets to total current debts. It measures a family's ability to pay current debts and provides an estimate of their ability to meet obligations in the event their income is curtailed.
- 2-11. A *cash budget* is a summary of estimated cash income and cash expenses for a specific time period, typically a year. The three parts of the cash budget include: the *income* section where all expected income is listed; the *expense* section where expected expenses are listed by category; and the surplus or deficit section where the cash

- surplus or deficit is determined both on a month-by-month basis and on a cumulative basis throughout the year. A *budget deficit* occurs when the planned expenses for a period exceed the anticipated income in that same period. A *budget surplus* occurs when the income for the period exceeds its planned expenses.
- 2-12. Two remedies are available for the Gonzales family. They may be able to transfer expenses from months in which budget deficits occur to the month in which the budget surplus exists, or conversely, to transfer income from the month with a surplus to the months with deficits. Another alternative is to use savings, investments, or borrowing to cover temporary deficits. The Gonzales family might also want to consider increasing their income, at least temporarily, by getting a “moonlighting” job.
- 2-13. By examining end-of-month budget balances, and the associated surpluses or deficits for all accounts, a person can initiate any required corrective actions to assure a balanced budget for the year. Surpluses are not problematic. Deficits normally require spending adjustments during subsequent months to bring the budget into balance by year end.
- 2-14. A dollar today and a dollar in the future will be able to purchase different amounts of goods and services, because if you have a dollar today, you can invest it and it will grow to more than a dollar in the future. At the same time, inflation works against the dollar, because rising prices erode its purchasing power. *Time value of money* concepts help us quantify these changes in dollar values so that we can plan the amount of money needed at certain points in time in order to fulfill our personal financial goals.
- 2-15. Interest is earned over a given period of time. When interest is compounded, this given period of time is broken into segments, such as months. Interest is then calculated one segment at a time, with the interest earned in one segment added back to become part of the principal for the next time segment. Thus, in *compounding*, your money earns interest on interest.
- The *rule of 72* is a quick way to approximate how long it will take for an investment to double in value. Divide 72 by the percentage rate you are earning on your investment, and the answer will be approximately how many years it will take for your money to double. For example, if your investment is earning 8%, divide 72 by 8 to see that in approximately 9 years your money will double.
- 2-16. *Future value* calculations show how much an amount will grow over a given time period. Future value is used to evaluate investments and to determine how much to save each year to accumulate a given future amount, such as the down payment on a house or for a child's college education. *Present value* concepts, the value today of an amount that will be received in the future, help you calculate how much a future cash receipt will be worth today, analyze investments, and determine loan payments.

## Financial Planning Exercises

1.
  - a. Rent paid is listed as an expense. For the year, his rent expense would be \$16,200 ( $\$1,350 \times 12$ ) unless he has rent due, the amount of which would show up as a current liability on his balance sheet.
  - b. The earrings should be shown on the balance sheet as an asset—personal property. Although the earrings have not been paid for, by definition they are an asset owned by Scott. However, they should be listed at fair market value, which is probably less than the price paid due to the high markup on jewelry. The \$900 bill outstanding is listed as a current liability on the balance sheet.
  - c. Since no loan payments were made during the period, a corresponding expense would not appear, but the obligation to repay the \$3,500 would be shown as a liability on the balance sheet.
  - d. Assuming he made 12 payments during the year, Scott would list loan payments as an expense of \$2,700. Of the 20 remaining payments, only about half are for principal. Therefore, on the balance sheet he should show the unpaid principal of about \$2,250 ( $20 \times \$225/2$ ) as a liability. The balance of the future payments is interest not yet due and therefore should not appear on the balance sheet. If the loan was used to purchase something of value, he would list the fair market value of the item as an asset on his balance sheet.
  - e. The \$3,800 of taxes paid should appear as an expense on the income and expense statement for the period, but because the tax refund was not received during the year it would not be included as income on the statement.
  - f. The investment in common stock would appear on balance sheet as a reduction in cash (an asset) and an increase in "investments" (an asset) at the current fair market value of the stock.
2. While everyone's financial statements will differ based on their own expectation of the future, each should have similar elements such as: assets like a home, automobiles and investments; liabilities like a mortgage, an auto loan, and consumer debt; and a positive net worth. The statement of income and expense should reflect income from a job or business, investment income, and expenses for items such as home repair and operation, debt payments, savings, taxes, and insurance.
3. See the following page for Teresa Blankenship's balance sheet.

## Problem 3—Worksheet 2.1

| BALANCE SHEET                                |                     |                                          |                     |
|----------------------------------------------|---------------------|------------------------------------------|---------------------|
| Name(s) Teresa Blankenship                   |                     | Date June 30, 2015                       |                     |
| ASSETS                                       |                     | LIABILITIES AND NET WORTH                |                     |
| <b>Liquid Assets</b>                         |                     | <b>Current Liabilities</b>               |                     |
| Cash on hand                                 | \$ 70.00            | Utilities                                | \$ 90.00            |
| In checking                                  | 180.00              | Rent                                     |                     |
| Savings accounts                             |                     | Insurance premiums                       | 220.00              |
| Money market funds and deposits              | 650.00              | Ta x e s                                 | 400.00              |
| Certificates of deposit (<1 yr. to maturity) |                     | Medical/dental bills                     |                     |
| <b>Total Liquid Assets</b>                   | <b>\$ 900.00</b>    | Repair bills                             |                     |
| <b>Investments</b>                           |                     | Bank credit card balances                | 400.00              |
| Stocks                                       | \$ 3,000.00         | Dept. store credit card balances         | 190.00              |
| Bonds                                        | 500.00              | Travel and entertainment card balances   |                     |
| Certificates of deposit (>1 yr. to maturity) |                     | Gas and other credit card balances       |                     |
| Mutual funds                                 |                     | Bank line of credit balances             |                     |
| Real estate                                  |                     | Other current liabilities                |                     |
| Retirement funds, IRA                        |                     | <b>Total Current Liabilities</b>         | <b>\$ 1,300.00</b>  |
| Other                                        |                     | <b>Long-Term Liabilities</b>             |                     |
| <b>Total Investments</b>                     | <b>\$ 3,500.00</b>  | Primary residence mortgage               | \$ 52,000.00        |
| <b>Real Property</b>                         |                     | Second home mortgage                     |                     |
| Primary residence                            | \$ 68,000.00        | Real estate investment mortgage          |                     |
| Second home                                  |                     | Auto loans                               | 3,000.00            |
| Other                                        |                     | Appliance/furniture loans                | 500.00              |
| <b>Total Real Property</b>                   | <b>\$ 68,000.00</b> | Home improvement loans                   |                     |
| <b>Personal Property</b>                     |                     | Single-payment loans                     |                     |
| Auto(s):                                     | \$ 9,775.00         | Education loans                          |                     |
| Auto(s):                                     |                     | Margin loans used to purchase securities |                     |
| Recreational vehicles                        |                     | Other long-term loans                    |                     |
| Household furnishing                         | 1,050.00            | <b>Total Long-Term Liabilities</b>       | <b>\$ 55,500.00</b> |
| Jewelry and artwork                          |                     | <b>(II) Total Liabilities</b>            |                     |
| Other                                        | 900.00              | <b>Net Worth [(I) - (II)]</b>            |                     |
| Other                                        |                     | <b>\$ 27,325.00</b>                      |                     |
| <b>Total Personal Property</b>               | <b>\$ 11,725.00</b> | <b>Total Liabilities and Net Worth</b>   |                     |
| <b>(I) Total Assets</b>                      | <b>\$ 84,125.00</b> | <b>\$ 84,125.00</b>                      |                     |

a. *Solvency*: This term refers to having a positive net worth. The calculation for her solvency ratio is as follows:

$$\text{Solvency Ratio} = \frac{\text{Total Net Worth}}{\text{Total Assets}} = \frac{\$27,325}{\$84,125} = 32.48\%$$

This indicates that Ms. Blankenship could withstand about a 33% decline in the market value of her assets before she would be insolvent. Although this is not too low a value, some thought might be given to increasing her net worth.

b. *Liquidity:* A simple analysis of Ms. Blankenship's balance sheet reveals that she's *not very liquid*. In comparing current liquid assets (\$900) with current bills outstanding (\$1,300), it is obvious that she cannot cover her bills and is, in fact, \$400 short (i.e., \$1,300 current debt – \$900 current assets). Her liquidity ratio is:

$$\text{Liquidity ratio} = \frac{\text{Liquid Assets}}{\text{Total Current Debts}} = \frac{\$ 900}{\$1,300} = 69.2\%$$

This means she can cover only about 69% of her current debt with her liquid assets. If we assume that her installment loan payments for the year are about \$2,000 (half the auto loan balance and all of the furniture loan balance) and add them to the bills outstanding, the liquidity ratio at this level of liquid assets is:

$$\text{Liquidity ratio} = \frac{\text{Liquid assets}}{\text{Total Current Debts}} = \frac{\$ 900}{\$3,300} = 27.3\%$$

This indicates that should her income be curtailed, she could cover only about 27% of her existing one-year debt obligations with her liquid assets—and this does *not* include her mortgage payment! This is clearly not a favorable liquidity position.

c. *Equity in her Dominant Asset:* Her dominant asset is her condo and property, which is currently valued at \$68,000. Since the loan outstanding on this asset is \$52,000, the equity is \$16,000 (i.e., \$68,000 – \$52,000). This amount indicates about a 24% equity interest (i.e., \$16,000/\$68,000) in the market value of her real estate. This appears to be a favorable equity position.

4. Ross and Cindy's income and expense statement follows. Note that for the purchase of the photographic equipment and the car, only the amounts actually paid during the period are listed as expenses on the income and expenses statement. (We are not told the amount of the car loan payments, so the \$2,450 listed does not reflect interest charges.) The outstanding balances will appear as liabilities on the balance sheet. The fair market value of the items purchased will appear as assets on the balance sheet.

## Problem 4—Worksheet 2.2

| INCOME AND EXPENSE STATEMENT                        |                                                                                                 |                                      |                   |
|-----------------------------------------------------|-------------------------------------------------------------------------------------------------|--------------------------------------|-------------------|
| Name(s)                                             | Cindy and Ross Adams                                                                            |                                      |                   |
| For the                                             | Year                                                                                            | Ended                                | December 31, 2015 |
| <b>Income</b>                                       |                                                                                                 |                                      |                   |
| Wages and salaries                                  | Name: Cindy                                                                                     | \$                                   | 47,000.00         |
|                                                     | Name:                                                                                           |                                      |                   |
|                                                     | Name:                                                                                           |                                      |                   |
| Self-employment income                              |                                                                                                 |                                      |                   |
| Bonuses and commissions                             |                                                                                                 |                                      |                   |
| Investment income                                   | Interest received                                                                               |                                      | 180.00            |
|                                                     | Dividends received                                                                              |                                      |                   |
|                                                     | Rents received                                                                                  |                                      |                   |
|                                                     | Sale of securities                                                                              |                                      |                   |
|                                                     | Other                                                                                           |                                      |                   |
| Pensions and annuities                              |                                                                                                 |                                      |                   |
| Other income                                        | Reimbursement for Travel expenses - Cindy                                                       |                                      | 1,950.00          |
|                                                     |                                                                                                 | (I) Total Income                     | \$ 49,130.00      |
| <b>Expenses</b>                                     |                                                                                                 |                                      |                   |
| Housing                                             | Rent/mortgage payment<br>(include insurance and taxes, if applicable)                           | \$                                   | 9,600.00          |
|                                                     | Repairs, maintenance, improvements                                                              |                                      |                   |
| Utilities                                           | Gas, electric, water                                                                            |                                      | 960.00            |
|                                                     | Phone                                                                                           |                                      |                   |
|                                                     | Cable TV and other                                                                              |                                      |                   |
| Food                                                | Groceries                                                                                       |                                      | 4,150.00          |
|                                                     | Dining out                                                                                      |                                      |                   |
| Transportation                                      | Auto loan payments                                                                              |                                      | 2,450.00          |
|                                                     | License plates, fees, etc.                                                                      |                                      |                   |
|                                                     | Gas, oil, repairs, tires, maintenance                                                           |                                      | 650.00            |
| Medical                                             | Health, major medical, disability insurance<br>(payroll deductions or not provided by employer) |                                      |                   |
|                                                     | Doctor, dentist, hospital, medicines                                                            |                                      |                   |
| Clothing                                            | Clothes, shoes, and accessories                                                                 |                                      | 2,700.00          |
| Insurance                                           | Homeowner's (if not covered by mortgage payment)                                                |                                      |                   |
|                                                     | Life (not provided by employer)                                                                 |                                      |                   |
|                                                     | Auto                                                                                            |                                      |                   |
| Taxes                                               | Income and social security                                                                      |                                      |                   |
|                                                     | Property (if not included in mortgage)                                                          |                                      |                   |
| Appliances, furniture, and other<br>major purchases | Loan payments                                                                                   |                                      | 600.00            |
|                                                     | Purchases and repairs                                                                           |                                      |                   |
| Personal care                                       | Laundry, cosmetics, hair care                                                                   |                                      |                   |
| Recreation and entertainment                        | Vacations                                                                                       |                                      |                   |
|                                                     | Other recreation and entertainment                                                              |                                      | 280.00            |
| Other items                                         | Ross's Tuition, Books and Supplies                                                              |                                      | 3,300.00          |
|                                                     | Gamma Corp. Bonds                                                                               |                                      | 4,900.00          |
|                                                     | Travel Expenses                                                                                 |                                      | 1,950.00          |
|                                                     |                                                                                                 | (II) Total Expenses                  | \$ 31,540.00      |
|                                                     |                                                                                                 | CASH SURPLUS (OR DEFICIT) [(I)-(II)] | \$ 17,590.00      |

5. a. Stan is correct in suggesting that only take-home pay be shown as income if the \$1,083 (\$5,000 – \$3,917) in taxes is not shown as an expense. If they choose to show the tax expense, Elizabeth would be correct. Expressing income on an after-tax basis would probably be simpler.

b. By having an allowance for "fun money," the Carpenters have specifically set aside a certain portion of their income for a little self-indulgence. This will serve three basic purposes: (1) it will give a little financial independence to each member of the family; (2) to a certain extent it allows for a little impulse buying which might further the enjoyment of life. However, it allows for this luxury under a budget control and diminishes the possibility of it occurring with an allocation from another account; and (3) it generally promotes a higher quality of life. Thus, the inclusion of "fun money" is probably justified.

| 6. | Item No. | Item           | Amount Budgeted | Amount Spent | Beginning Balance | Monthly Surplus (Deficit) | Cumulative Surplus (Deficit) |
|----|----------|----------------|-----------------|--------------|-------------------|---------------------------|------------------------------|
|    | (1)      | (2)            | (3)             | (4)          | (5)               | (6)                       | (7)                          |
|    | 1        | Rent           | \$550           | \$575        | \$50              | \$(25)                    | \$25                         |
|    | 2        | Utilities      | 150             | 145          | 15                | 5                         | 20                           |
|    | 3        | Food           | 510             | 475          | (45)              | 35                        | (10)                         |
|    | 4        | Auto           | 75              | 95           | (25)              | (20)                      | (45)                         |
|    | 5        | Recr. & enter. | 100             | 110          | (50)              | (10)                      | (60)                         |

7. This question requires a personal response that will differ for each student. Therefore, a specific example has not been provided. However, the cases below provide several examples of possible answers to this question; it is recommended that the cases be examined in conjunction with this question.

The question provides an effective means to involve the student in the budgeting process. Most students are somewhat amazed when they find out how they have actually been spending their money. Before assigning this question, it is interesting to ask the students to estimate how they actually spend their money. A comparison of their estimates with the actual spending records typically reflects the unconscious manner in which they may be spending. Most students will find that the use of a budget to control and regulate expenses allows them to make more meaningful and satisfying expenses.

**PLEASE NOTE:** Problems 8 through 10 deal with time value of money, and solutions using both the tables and the financial calculator will be presented. The factors are taken from the tables as follows: future value—Appendix A; future value annuity—Appendix B; present value—Appendix C; present value annuity—Appendix D. If using the financial calculator, set on *End Mode* and *1 Payment/Year*. The +/- indicates the key to change the sign of the entry, in these instances from positive to negative. This keystroke is required on some financial calculators in order to make the programmed equation work. Other calculators require that a "Compute" key be pressed to attain the answer.

8. a. At the end of 10 years, your \$15,000 investment would grow to \$26,865 at 6%, but to \$22,200 at 4%.

|    |   |                |             |       |     |    |
|----|---|----------------|-------------|-------|-----|----|
| FV | = | PV x FV factor | 6%, 10 yrs. | 15000 | +/- | PV |
|----|---|----------------|-------------|-------|-----|----|

|                                                    |                                                                                                          |       |             |
|----------------------------------------------------|----------------------------------------------------------------------------------------------------------|-------|-------------|
| $= \$15,000 \times 1.791$ $= \underline{\$26,865}$ |                                                                                                          | 6     | I           |
|                                                    |                                                                                                          | 10    | N           |
|                                                    |                                                                                                          | FV    | \$26,862.72 |
| FV                                                 | $= PV \times FV \text{ factor } 4\%, 10 \text{ yrs.}$ $= \$15,000 \times 1.480$ $= \underline{\$22,200}$ | 15000 | +/- PV      |
|                                                    |                                                                                                          | 4     | I           |
|                                                    |                                                                                                          | 10    | N           |
|                                                    |                                                                                                          | FV    | \$22,203.66 |

b. At the end of 25 years, your \$45,000 investment would grow to \$244,215 at a 7% return.

|    |                                                                                                           |       |              |
|----|-----------------------------------------------------------------------------------------------------------|-------|--------------|
| FV | $= PV \times FV \text{ factor } 7\%, 25 \text{ yrs.}$ $= \$45,000 \times 5.427$ $= \underline{\$244,215}$ | 45000 | +/- PV       |
|    |                                                                                                           | 7     | I            |
|    |                                                                                                           | 25    | N            |
|    |                                                                                                           | FV    | \$244,234.47 |

c. At the end of 10 years the average new home, which costs \$275,000 today, will cost \$447,975 if prices go up at 5% per year.

|    |                                                                                                            |        |              |
|----|------------------------------------------------------------------------------------------------------------|--------|--------------|
| FV | $= PV \times FV \text{ factor } 5\%, 10 \text{ yrs.}$ $= \$275,000 \times 1.629$ $= \underline{\$447,975}$ | 275000 | +/- PV       |
|    |                                                                                                            | 5      | I            |
|    |                                                                                                            | 10     | N            |
|    |                                                                                                            | FV     | \$447,946.02 |

d. No, you will have \$145,530, which is less than your \$212,000 goal.

|    |                                                                                                           |       |              |
|----|-----------------------------------------------------------------------------------------------------------|-------|--------------|
| FV | $= PV \times FV \text{ factor } 5\%, 15 \text{ yrs.}$ $= \$70,000 \times 2.079$ $= \underline{\$145,530}$ | 70000 | +/- PV       |
|    |                                                                                                           | 5     | I            |
|    |                                                                                                           | 15    | N            |
|    |                                                                                                           | FV    | \$145,524.97 |

You will need to deposit \$10,587.30 at the end of each year for 15 years in order to reach the \$212,000 goal.

|     |                                                                                                            |        |             |
|-----|------------------------------------------------------------------------------------------------------------|--------|-------------|
| PMT | $= FV \div FVA \text{ factor } 4\%, 15 \text{ yrs.}$ $= \$212,000 \div 20.024$ $= \underline{\$10,587.30}$ | 212000 | +/- FV      |
|     |                                                                                                            | 4      | I           |
|     |                                                                                                            | 15     | N           |
|     |                                                                                                            | PMT    | \$10,587.51 |

e. You will need to invest \$13,577.55 at the end of each year at a rate of 4% for the next 35 years in order to retire with \$1 million.

|     |                                                                                                              |         |             |
|-----|--------------------------------------------------------------------------------------------------------------|---------|-------------|
| PMT | $= FV \div FVA \text{ factor } 4\%, 35 \text{ yrs.}$ $= \$1,000,000 \div 73.651$ $= \underline{\$13,577.55}$ | 1000000 | +/- FV      |
|     |                                                                                                              | 4       | I           |
|     |                                                                                                              | 35      | N           |
|     |                                                                                                              | PMT     | \$13,577.32 |

f. You will be able to withdraw \$70,257.61 at the end of each year for 25 years if you retire with \$750,000 invested at 8%.

|     |   |                             |        |     |                    |
|-----|---|-----------------------------|--------|-----|--------------------|
| PMT | = | PV ÷ PVA factor 8%, 25 yrs. | 750000 | +/- | PV                 |
|     | = | \$750,000 ÷ 10.675          | 8      |     | I                  |
|     | = | <u>\$70,257.61</u>          | 25     |     | N                  |
|     |   |                             | PMT    |     | <u>\$70,259.08</u> |

9. a. If Gwen can earn 4% on her money, \$54,188 will be worth about \$65,947 in 5 years:

|    |   |                           |       |     |                    |
|----|---|---------------------------|-------|-----|--------------------|
| FV | = | PV x FV factor 4%, 5 yrs. | 54188 | +/- | PV                 |
|    | = | \$54,188 x 1.217          | 4     |     | I                  |
|    | = | <u>\$65,946.80</u>        | 5     |     | N                  |
|    |   |                           | FV    |     | <u>\$65,927.99</u> |

No, she will fall short by about \$34,053.

b. Assuming that Gwen adds a payment to her savings at the end of each year for the next five years so that the fifth payment comes at the end of the time period, she would have to save \$5,077.55 per year. This calculation is as follows:

|     |   |                             |       |     |                   |
|-----|---|-----------------------------|-------|-----|-------------------|
| FV  | = | PMT x FVA factor 4%, 5 yrs. | 34072 | +/- | FV                |
| PMT | = | FV ÷ FVA factor 4%, 5 yrs.  | 4     |     | I                 |
|     | = | \$34,053 ÷ 5.416            | 5     |     | N                 |
|     | = | <u>\$6,287.52</u>           | PMT   |     | <u>\$6,290.62</u> |

c. If Gwen saves only \$4,000 per year she would have an additional \$21,664 for a total of \$87,611 (\$65,947 + \$21,664) and will fall \$12,389 short of her \$100,000 goal.

|    |   |                             |      |     |                    |
|----|---|-----------------------------|------|-----|--------------------|
| FV | = | PMT x FVA factor 4%, 5 yrs. | 4000 | +/- | PMT                |
|    | = | \$4,000 x 5.416             | 4    |     | I                  |
|    | = | <u>\$21,664</u>             | 5    |     | N                  |
|    |   |                             | FV   |     | <u>\$21,665.29</u> |

10. a. Note what a difference of 2% makes over the 20-year time period! You would have to initially invest about 46% more money to end up with the same future value [(\$364,800 – \$249,600) ÷ \$249,600].

|    |   |                            |        |     |                     |
|----|---|----------------------------|--------|-----|---------------------|
| PV | = | FV x PV factor 6%, 20 yrs. | 800000 | +/- | FV                  |
|    | = | \$800,000 x 0.312          | 6      |     | I                   |
|    | = | <u>\$249,600</u>           | 20     |     | N                   |
|    |   |                            | PV     |     | <u>\$249,443.78</u> |

|    |   |                            |        |     |    |
|----|---|----------------------------|--------|-----|----|
| PV | = | FV x PV factor 4%, 20 yrs. | 800000 | +/- | FV |
|    | = | \$800,000 x 0.456          | 4      |     | I  |
|    | = | <u>\$364,800</u>           | 20     |     | N  |

|    |              |
|----|--------------|
| PV | \$365,109.56 |
|----|--------------|

b. Greg can withdraw \$71,955.39 at the end of every year for 15 years.

|     |   |                              |        |     |                    |
|-----|---|------------------------------|--------|-----|--------------------|
| PV  | = | PMT x PVA factor 4%, 15 yrs. | 800000 | +/- | PV                 |
| PMT | = | PV ÷ PVA factor 4%, 15 yrs.  | 4      |     | I                  |
|     | = | \$800,000 ÷ 11.118           | 15     |     | N                  |
|     | = | <u>\$71,955.39</u>           | PMT    |     | <u>\$71,952.88</u> |

c. To withdraw \$35,000 at the end of every year for 15 years, Greg would need a retirement fund of \$389,130.

|    |   |                             |       |     |                     |
|----|---|-----------------------------|-------|-----|---------------------|
| PV | = | PMT x PVA factor 4%, 5 yrs. | 35000 | +/- | PMT                 |
|    | = | \$35,000 x 11.118           | 4     |     | I                   |
|    | = | <u>\$389,130</u>            | 15    |     | N                   |
|    |   |                             | PV    |     | <u>\$389,143.56</u> |

d. Greg will not need to invest any additional funds because the original investment will meet his retirement needs.

11. Steve needs \$81,459.60 today to fund college.

|    |   |                           |
|----|---|---------------------------|
| PV | = | FV x PV factor 4%, 4 yrs. |
|    | = | \$23,000 x 0.855          |
|    | = | <u>\$19,665</u>           |

|    |   |                           |
|----|---|---------------------------|
| PV | = | FV x PV factor 4%, 5 yrs. |
|    | = | \$24,300 x 0.822          |
|    | = | <u>\$19,974.60</u>        |

|    |   |                           |
|----|---|---------------------------|
| PV | = | FV x PV factor 4%, 6 yrs. |
|    | = | \$26,000 x 0.790          |
|    | = | <u>\$20,540</u>           |

|    |   |                           |
|----|---|---------------------------|
| PV | = | FV x PV factor 4%, 7 yrs. |
|    | = | \$28,000 x 0.760          |
|    | = | <u>\$21,280</u>           |

Add \$19,665 + \$19,974.60 + \$20,540 + \$21,280 = \$81,459.60

This problem in a TI BAIL+

CFO = 0

C01 = 0, F01 = 3

C02 = 23000, F02 = 1

C03 = 24300, F03 = 1

$$C04 = 26000, F04 = 1$$

$$C05 = 28000, F05 = 1$$

$$I = 4$$

$$CPT NPV = \$81,459.21$$

12. It should be noted, that you are calculating this amount using an expected rate of return. Should the return be higher any given years, the value will be more. Should the return be lower any given years, the value will be less.

|    |   |                              |      |     |                    |
|----|---|------------------------------|------|-----|--------------------|
| FV | = | PMT x FVA factor 6%, 20 yrs. | 2000 | +/- | PMT                |
|    | = | \$2,000 x 36.786             | 6    |     | I                  |
|    | = | <u>\$73,572</u>              | 20   |     | N                  |
|    |   |                              | FV   |     | <u>\$73,571.18</u> |

## Solutions to Critical Thinking Cases

### 2.1 The Lawrences' Version Of Financial Planning

#### Case 2.1, Problem 1

| Balance Sheet                           |                  |                                         |                   |
|-----------------------------------------|------------------|-----------------------------------------|-------------------|
| Name(s): <b>Rob &amp; Lisa Lawrence</b> |                  | Date: <b>December 31, 2015</b>          |                   |
| ASSETS                                  |                  | LIABILITIES                             |                   |
| <b>Liquid assets:</b>                   |                  | <b>Current liabilities:</b>             |                   |
| Cash                                    | \$ 85            | Bank credit card balances               | \$ 675            |
| Checking                                | 485              | Travel & entertainment card balances    | 2,000             |
| Money Market                            | 3,000            |                                         |                   |
| <b>Investments:</b>                     |                  | <b>Long-term liabilities:</b>           |                   |
| Common Stocks                           | 15,000           | Mortgage on home—loan balance           | 148,000           |
|                                         |                  | Auto loan balance                       | 4,650             |
| <b>Property:</b>                        |                  |                                         |                   |
| Home                                    | 185,000          |                                         |                   |
| 2009 Nissan                             | 15,000           |                                         |                   |
| Household furnishings                   | 4,500            |                                         |                   |
|                                         |                  | <b>TOTAL LIABILITIES</b>                | <b>\$ 155,325</b> |
|                                         |                  | <b>NET WORTH (Assets - Liabilities)</b> | <b>\$ 67,745</b>  |
| <b>TOTAL ASSETS</b>                     | <b>\$223,070</b> | <b>TOTAL LIAB. &amp; NET WORTH</b>      | <b>\$223,070</b>  |

| Income & Expense Statement                  |                                 |
|---------------------------------------------|---------------------------------|
| Name(s): <b>Rob &amp; Lisa Lawrence</b>     |                                 |
| For the <b>Year</b>                         | Ending <b>December 31, 2015</b> |
| INCOME                                      | AMOUNT                          |
| Rob                                         | \$ 76,000                       |
| Lisa                                        | 42,000                          |
| <b>TOTAL INCOME</b>                         | <b>\$ 118,000</b>               |
| EXPENSES                                    |                                 |
| Mortgage payments (includes property taxes) | \$ 11,028                       |
| Gas, electric, water                        | 1,990                           |
| Phone                                       | 640                             |
| Cable TV                                    | 680                             |
| Food                                        | 5,902                           |
| Auto loan payments                          | 2,150                           |
| Transportation expense                      | 2,800                           |
| Medical expenses—unreimbursed               | 600                             |
| Clothing expense                            | 2,300                           |
| Homeowner's insurance premiums              | 1,300                           |
| Auto insurance premiums                     | 1,600                           |
| Income and Social Security taxes paid       | 36,539                          |
| Vacation (Trip to Europe)                   | 5,000                           |
| Recreation and entertainment                | 4,000                           |

|                                  |                  |
|----------------------------------|------------------|
| Credit card loan payments        | 2,210            |
| Purchase of common stock         | 7,500            |
| Addition to money market account | 500              |
| <b>TOTAL EXPENSES</b>            | <b>\$ 86,739</b> |
| <b>CASH SURPLUS (DEFICIT)</b>    | <b>\$ 31,261</b> |

[Note: \$1,400 of the \$11,028 in house payments was for property taxes—only \$9,628 was for the mortgage. The homeowner's insurance was listed separately.]

1. The Lawrences' personal financial statements are on the following page.
2. a. Solvency =  $\frac{\text{Total Net Worth}}{\text{Total Assets}} = \frac{\$ 67,745}{\$223,070} = 0.30$

The Lawrences could withstand about a 30% decline in the market value of their assets before they would be insolvent. The solvency ratio also indicates percent ownership: the Lawrences own free and clear about 30% of their total assets. While this ratio is acceptable, they should seek to improve it.

$$\text{b. Liquidity} = \frac{\text{Liquid Assets}}{\text{Total Current Liabilities}} = \frac{\$3,570}{\$2,675} = 1.33$$

The Lawrences can cover their current liabilities with their liquid assets and have a little to spare. However, they still have to make mortgage and auto loan payments each month and probably would not want to use up their money market funds to do so.

$$\text{c. Savings} = \frac{\text{Cash Surplus}}{\text{Income after Taxes}} = \frac{\$31,261}{\$80,061} = 39.05\%$$

At about 39 percent, the Lawrences' current saving rate is above that of the average American family. However, if they were to live off only Rob's income, their savings rate would fall considerably.

$$\begin{aligned} \text{d. Debt Service} &= \frac{\text{Total Debt Payments}}{\text{Gross Income}} \\ &= \frac{\text{Mortgage} + \text{Car Loan} + \text{Credit Card Payments}}{\text{Gross Income}} \\ &= \frac{\$11,028 + \$2,150 + \$2,210}{\$118,000} = \frac{\$15,388}{\$118,000} = 13.04\% \end{aligned}$$

The Lawrences are okay for now. However, with only Rob's salary, the debt service ratio becomes higher:

$$\frac{\$15,388}{\$76,000} = 20.2\%$$

With more unexpected debt straining the one-income family, it could quickly spiral out of control. That said, the rule of thumb is to try to keep your debt service ratio

somewhere under 35% or so, because that's generally viewed as a manageable level; both ratios are below this guideline.

3. If the Lawrences continue to manage their finances as described in the case, there is no question that, in the long-run, they are headed for financial disaster. Because the Lawrences have become accustomed to living with a double income, it will be extremely difficult to change their overall way of life or standard of living. The Lawrences must realize that the bottom line of the income statement is the most important, and given their present level of expenses, their contribution to savings or investment will change from an annual surplus—and it's already very small—to an annual deficit. As a result, their net worth will decline, and the long-run consequence of these events will be financially quite detrimental to the Lawrences.

Rob must understand that the family will incur additional living expenses when the child is born, that inflation will continue, and that the cost of home ownership and everyday living will more than offset his expected 10 percent increase in pay. At the present time, Rob's take-home income of \$52,500 covers necessities, which are approximately \$30,000; perhaps Rob considers cable TV a luxury and expects to reduce some of their dining out and clothing purchases next year. A 10 percent (take-home) pay increase of \$5,250 will increase his take-home pay to \$57,750 and will help the Lawrence family pay for the increased family size (based on Rob's estimate of necessities), inflation, and numerous other costs. If one conservatively estimates a 3 percent rate of inflation in the cost of necessities, the resulting total cost would increase to \$30,900. This results in a surplus from which to cover the added expenses for a child as well as other unforeseen costs. Furthermore, the inflation rate could be even higher.

The long-run consequences of Rob's strategy could prove very harmful. Although the Lawrences' net worth is now positive, any future annual expenses exceeding income (take-home pay) will slowly erode their savings, investments, and net worth. They do not have much excess to cover any emergency expenses. If the Lawrences wish to maintain or increase their net worth and to achieve their financial goals, they must take immediate action to find ways to either increase revenue or decrease expenses.

The logical solution at this time is for Rob and Lisa to prepare a budget and follow it to live within the constraints of their expected income and expenses. They should immediately look at all expenses, past, present, and future, to develop financial plans so they can live within their means. They should review their balance sheet and income statement and then prepare projected monthly and annual budgets. The couple should record planned income and expenses month by month, monitoring monthly surpluses and deficits so they can quickly correct them. It won't be too long before they realize that maintaining their present standard of living will seriously erode their overall net worth. Rob and Lisa should develop objectives or goals for both the long- and short-run. By correlating budget control with expected future goals, a realistic plan of action can be developed that allows them to achieve their financial goals and continue to increase their net worth.

## 2.2 Alex Mikhailov Learns To Budget

1.
  - a. In order to get the big picture of Alex's expected income and expenses, it may be more useful to simply use Worksheet 2.2, the Income and Expense Statement, to project his expected position for the coming year. When doing this problem together in class, work through the given setup using a blank Income and Expense Statement on the overhead projector. Then have the class decide which items need to be slashed. (See the example which follows.) After these decisions have been made, divide the expenses into months and fill out Worksheet 2.3 as indicated in part 2 which follows.
  - b. For 2015, Alex's total expenses of \$35,979 are more than his expected total income; he has a deficit.
2. The mentioned adjustments for 2016 were incorporated into making Alex's annual cash budget summary shown on Worksheet 2.3 which follows. Please note that some of the monthly budgeted items vary by small amounts in order to make the totals correct.
3. (Students' answers will vary depending on the adjustments chosen.)

## Case 2.2, Problem 1a

| Income and Expense Statement                        |                                                                     |            |           |
|-----------------------------------------------------|---------------------------------------------------------------------|------------|-----------|
| Name: <b>Alex Mikhailov</b>                         |                                                                     |            |           |
| For the <b>Year</b> Ending <b>December 31, 2016</b> |                                                                     |            |           |
| Income                                              |                                                                     | 2015       | 2016      |
| Salary                                              | Alex's take-home pay of \$2,893/mo in 2015 and \$3,200/mo in 2016 . | \$ 34,716  | \$ 38,400 |
| Other income                                        |                                                                     |            |           |
|                                                     |                                                                     |            |           |
| (I) Total Income                                    |                                                                     | \$ 34,716  | \$ 38,400 |
| Expenses                                            |                                                                     |            |           |
| Housing                                             | Rent                                                                | \$12,000   | \$12,000  |
|                                                     | Repairs                                                             |            |           |
| Utilities                                           | Gas, electric, water                                                | 1,080      | 1,134     |
|                                                     | Phone                                                               | 600        | 660       |
|                                                     | Cable TV and other                                                  | 440        | 500       |
| Food                                                | Groceries                                                           | 2,500      | 2,625     |
|                                                     | Dining out                                                          | 2,600      | 2,600     |
| Transportation                                      | Auto loan payments                                                  | 3,840      | 3,840     |
|                                                     | Auto related expenses                                               | 1,560      | 1,638     |
|                                                     | Other transportation expenses                                       |            |           |
| Medical                                             | Health-related insurance                                            |            |           |
|                                                     | Doctor, dentist, hospital, medicines                                | 190        | 190       |
| Clothing                                            | Clothes, shoes, accessories                                         | 3,200      | 2,250     |
| Insurance                                           | Homeowner's                                                         |            |           |
|                                                     | Life                                                                |            |           |
|                                                     | Auto                                                                | 1,855      | 1,948     |
| Taxes                                               | Income and social security                                          |            |           |
|                                                     | Property (if not included in mortgage)                              |            |           |
| Appliances, furniture & other major purchases       | Loan payments                                                       | 540        | 540       |
|                                                     | Purchases and repairs                                               | 1,200      | 660       |
| Personal care                                       | Laundry, cosmetics, hair care                                       | 424        | 424       |
| Recreation & entertainment                          | Vacations                                                           |            | 2,100     |
|                                                     | Other recreation and entertainment                                  | 2,900      | 2,900     |
| Other items                                         | Misc.                                                               | 600        | 600       |
|                                                     | Credit card pmts: 6 mo.@\$75/mo.                                    | 450        | 450       |
|                                                     | Other expenses                                                      |            |           |
| (II) Total Expenses                                 |                                                                     | \$ 35,979  | \$ 37,059 |
| CASH SURPLUS (OR DEFICIT) [(I) – (II)]              |                                                                     | \$ (1,263) | \$ 1,341  |

| Case 2.2, Problem 2—Worksheet 2.3         |                | ANNUAL CASH BUDGET BY MONTH |       |       |       |       |         |       |       |       |        |                      |        |
|-------------------------------------------|----------------|-----------------------------|-------|-------|-------|-------|---------|-------|-------|-------|--------|----------------------|--------|
| Name(s)                                   | Alex Mikhailov |                             |       |       |       |       |         |       |       |       |        |                      |        |
| For the                                   | Year           |                             |       |       |       |       |         |       |       |       | Ending | December 31,<br>2016 |        |
|                                           |                |                             |       |       |       |       |         |       |       |       |        |                      |        |
| INCOME                                    | Jan.           | Feb.                        | Mar.  | Apr.  | May   | June  | July    | Aug.  | Sept. | Oct.  | Nov.   | Dec.                 | Total  |
| Take-home pay                             | 3,200          | 3,200                       | 3,200 | 3,200 | 3,200 | 3,200 | 3,200   | 3,200 | 3,200 | 3,200 | 3,200  | 3,200                | 38,400 |
|                                           |                |                             |       |       |       |       |         |       |       |       |        |                      |        |
| [1] Total Income                          | 3,200          | 3,200                       | 3,200 | 3,200 | 3,200 | 3,200 | 3,200   | 3,200 | 3,200 | 3,200 | 3,200  | 3,200                | 38,400 |
| EXPENDITURES                              |                |                             |       |       |       |       |         |       |       |       |        |                      |        |
| Rent                                      | 1000           | 1000                        | 1000  | 1000  | 1000  | 1000  | 1000    | 1000  | 1000  | 1000  | 1000   | 1000                 | 12,000 |
| Gas & electricity                         | 94             | 94                          | 94    | 94    | 94    | 94    | 95      | 95    | 95    | 95    | 95     | 95                   | 1,134  |
| Phone                                     | 55             | 55                          | 55    | 55    | 55    | 55    | 55      | 55    | 55    | 55    | 55     | 55                   | 660    |
| Cable TV                                  | 41             | 41                          | 41    | 41    | 42    | 42    | 42      | 42    | 42    | 42    | 42     | 42                   | 500    |
| Groceries                                 | 218            | 218                         | 218   | 219   | 219   | 219   | 219     | 219   | 219   | 219   | 219    | 219                  | 2,625  |
| Dining out                                | 216            | 216                         | 216   | 216   | 217   | 217   | 217     | 217   | 217   | 217   | 217    | 217                  | 2600   |
| Auto loan payments                        | 320            | 320                         | 320   | 320   | 320   | 320   | 320     | 320   | 320   | 320   | 320    | 320                  | 3,840  |
| Car expenses                              | 129            | 220                         | 128   | 129   | 129   | 129   | 129     | 129   | 129   | 129   | 129    | 129                  | 1,638  |
| Medical care, dentist                     | 10             | 10                          | 45    | 10    | 10    | 10    | 10      | 10    | 45    | 10    | 10     | 10                   | 190    |
| Clothing                                  | 187            | 187                         | 187   | 187   | 187   | 187   | 188     | 188   | 188   | 188   | 188    | 188                  | 2,250  |
| Auto insurance                            | 0              | 0                           | 0     | 0     | 0     | 974   | 0       | 0     | 0     | 0     | 0      | 974                  | 1,948  |
| Installment loan for stereo               | 45             | 45                          | 45    | 45    | 45    | 45    | 45      | 45    | 45    | 45    | 45     | 45                   | 540    |
| Personal care                             | 35             | 35                          | 35    | 35    | 35    | 35    | 35      | 35    | 36    | 36    | 36     | 36                   | 424    |
| Vacation                                  | 0              | 0                           | 0     | 0     | 0     | 0     | 2,100   | 0     | 0     | 0     | 0      | 0                    | 2,100  |
| Other recreation & entertainment          | 241            | 241                         | 241   | 241   | 242   | 242   | 242     | 242   | 242   | 242   | 242    | 242                  | 2,900  |
| Appliance purchases                       | 55             | 55                          | 55    | 55    | 55    | 55    | 55      | 55    | 55    | 55    | 55     | 55                   | 660    |
| Miscellaneous expenses                    | 50             | 50                          | 50    | 50    | 50    | 50    | 50      | 50    | 50    | 50    | 50     | 50                   | 600    |
| Credit card payments                      | 75             | 75                          | 75    | 75    | 75    | 75    | 0       | 0     | 0     | 0     | 0      | 0                    | 450    |
| Roth IRA contributions                    |                |                             |       |       |       |       |         |       |       |       |        |                      |        |
| [2] Total Expenditures                    | 2,771          | 2,862                       | 2,805 | 2,772 | 2,775 | 3,749 | 4,802   | 2,702 | 2,738 | 2,703 | 2,703  | 3,677                | 37,059 |
| MONTHLY CASH SURPLUSES<br>(DEFICIT) [1-2] | 429            | 338                         | 395   | 428   | 425   | (549) | (1,602) | 498   | 462   | 497   | 497    | (477)                |        |
| CUMULATIVE CASH SURPLUS<br>(DEFICIT)      | 429            | 767                         | 1,162 | 1,590 | 2,015 | 1,466 | (136)   | 362   | 824   | 1,321 | 1,818  | 1,341                | 1,341  |