

Spending Plans Note Taking Guide

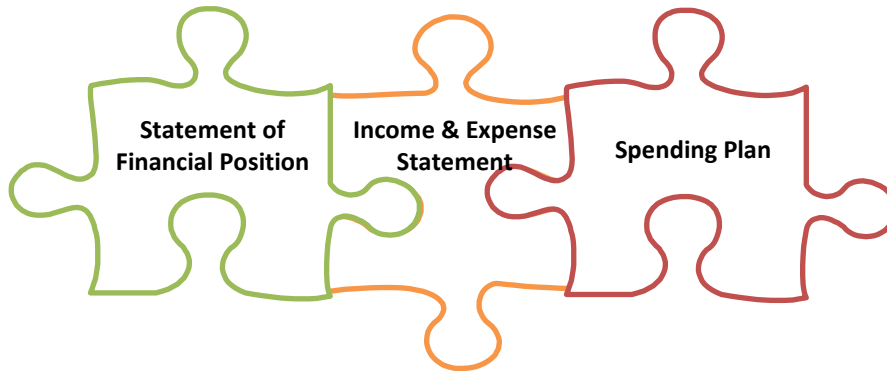
Name _____

Directions: Save this document in your documents library as:

Your Period Your Last Name Your First Name Spending Plans

What is a **Spending Plan**?

Also known as a _____



What is my financial position _____?

How have I managed my money in the _____?

What is my _____ money management plan?



Determine what _____ to make

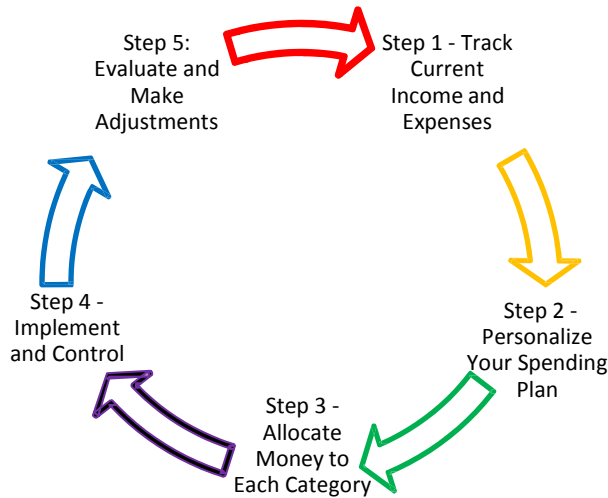
Make _____

Forward-looking Income and Expense Statement: You may use the **same** template for both the _____ and the _____.

Why is a Spending Plan an important part of financial planning?

1. Help you manage your _____ in a _____ manner
2. Increase _____.
3. Helps set and reach _____.
4. Analyze the _____ of your trade-offs to maximize financial well-being.

The Spending Plan Development Process



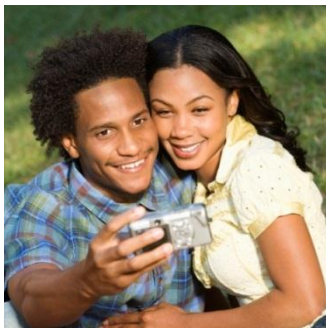
The steps in **developing** a spending plan are:

1. _____
2. _____
3. _____

The steps in **maintaining** the spending plan are:

1. _____
2. _____

Congratulations!
You have been hired as a financial advisor for John and Tia Brown



Income and Expense Statement for:		John and Tia Brown
Time Period:		January
	Amount	Planned Amount for February
Income		
Earned Income		
Wages or salary before deductions	5500.00	
Total Income	\$5,500.00	\$
Expenses		
Deductions Often Taken from Paychecks		
*Contribution to a retirement program (401k, 403b)	385.00	
*Federal income tax	1,100.00	
*Social Security	317.13	
*Medicare	74.17	
Saving and Investing (Pay Yourself First)		
Contribution to savings and investments	250.00	
Insurance Premiums		
*Health insurance, Medicaid and Medicare	250.00	
*Renters or homeowners insurance	15.00	
*Automobile insurance	70.00	
Housing Costs		
*Housing payment (rent or mortgage)	800.00	
*Utilities (gas, electricity, water, garbage)	100.00	
Transportation Costs		
*Automobile payment	200.00	
*Fuel (gasoline/diesel)	100.00	
*Automobile repairs and maintenance	50.00	
*Public transportation fees	50.00	
*Automobile license and registration (yearly fee)	20.00	
Food Costs		
Food at the grocery store	300.00	
Meals at restaurants	350.00	
Snacks away from home (coffees, treats)	30.00	
Non-food kitchen supplies (plastic wrap, dish soap)	30.00	
Communication and Computers		
*Cell phone	110.00	
*Internet	60.00	
*Cable/satellite television	40.00	
Medical Costs Not Covered by Insurance		
*Medical care	100.00	
Clothing and Personal Care		
Clothing	250.00	
Personal care (shampoo, haircuts, cosmetics, laundry, etc.)	150.00	
Entertainment		
Movies, books, and other entertainment	200.00	
Total Expenses	\$5,401.30	\$
Net Gain or Net Loss (Income less Expenses)	\$98.70	\$

1 *Track Current Income and Expenses*

Keep all receipts for the month of January to create an _____

Review John and Tia's income and expense statement for a _____ view of their income and expenses

2

<p><i>How will you develop a Spending Plan?</i></p> <p>What are four methods that may be used to develop a Spending Plan?</p> <p>1. _____</p> <p>2. _____</p> <p>3. _____</p> <p>4. _____</p>	<p><i>Select a time period for your spending plan.</i></p> <p>What time period do most people use for their Spending Plan?</p> <p>_____</p>	<p><i>What categories will your Spending Plan include?</i></p> <p>Why are categories different for everyone's Spending Plan?</p> <p>_____</p>
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3 *Plan how much money to allocate for each category*

<p>What are three things to consider when determining how much money to allocate to each category?</p> <p>1. _____</p> <p>2. _____</p> <p>3. _____</p>	<p>What is the difference between contractual (fixed) expenses and noncontractual (variable) expenses?</p> <p>Contractual (fixed) expenses are _____ to pay for a _____.</p> <p>Examples: _____</p> <p>_____</p> <p>Noncontractual (flexible or variable) expenses are easy to _____ or _____</p> <p>Examples: _____</p>	<p>It may help to refer to a spending guide when making decisions about how much to allocate. What are the suggestions?</p> <p>Saving and Investing: _____</p> <p>Insurance: _____</p> <p>Housing: _____</p> <p>Transportation: _____</p> <p>Food: _____</p> <p>Other: _____</p>
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What do you do if you have a **net gain**? _____

What do you do if you have a **net loss**? _____

4

Implement the plan and ensure you stick to the plan.

What are five types of control systems?

1. _____
2. _____
3. _____
4. _____
5. _____

5

Evaluate and Make Adjustments

What are some questions you should ask as you are evaluating your Spending Plan?

1. _____
2. _____
3. _____

Ratio Analysis

Current Ratio:

The current ratio will tell you if you have _____ to meet your current obligations.

Look for a number greater than _____.

The **formula** for the current ratio is: _____

Debt Ratio:

The debt ratio will tell you if you have the ability to _____.

It will also tell you how much of your assets still _____.

We want the debt ratio to go _____ over time as we pay our long-term obligations.

The **formula** for the debt ratio is: _____.

Savings Ratio:

The savings ratio will tell you how much of your income you are really _____.

Income available for savings is also known as _____

Income available for living expenses is also known as _____

The **formula** for the savings ratio is _____

John and Tia's Spending Plan

Step One: Track Current Income and Expenses

John and Tia kept all their receipts for the month of January to develop an Income and Expense Statement. Review John and Tia's January Income and Expense Statement on the next page for a realistic view of their income and expenses.

Step Two: Personalize Your Spending Plan

John and Tia have requested that you develop a spending plan for the month of February. The couple used a spreadsheet to develop their Income and Expense Statement and have requested the same document and same categories for their Spending Plan. You will be using the last column on the next page to enter the new amounts you suggest to them.

John and Tia's expectations for you as their financial advisor are to accomplish these four goals:

1. Increase the amount of their emergency savings fund
2. Pay more on their monthly car loan payment to pay the loan off faster
3. Spend less money dining out at restaurants
4. Even though both John and Tia must purchase dress clothes for work, they want to spend less money on clothing every month

Step Three: Allocate Money to Each Category

Based on the Brown Family's directions above, use the column provided on the Excel document to develop a spending plan for the family for the month of February.

The couple has indicated an asterisk (*) next to expenses that are either contractual or they are unwilling to decrease. Remember to consider John and Tia's goals and consider the trade-offs they will have to make as a result of the changes. **The final Spending Plan must have a net gain or a zero balance. Don't leave any of the amounts blank. Be sure you have made four changes as the Brown family directed you in Step 2.**

How has creating a spending plan helped the Brown Family? Give two ways it has helped them:

1. _____
2. _____

Turning in Your Work: Be sure to **re-save** this document to update your changes, and drag and drop it into your instructor's hand in folder.

Income and Expense Statement for: John and Tia Brown		
Time Period:	January	February
	Amount	Planned
Earned Income		
Wages or salary before deductions	5,500.0	_____
Total Income	\$5,500.0	\$ _____
Deductions Often Taken from Paychecks		
*Contribution to a retirement program (401k, 403b)	385.00	_____
*Federal Income Tax	1,100.0	_____
*Social Security	317.13	_____
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Saving and Investing (Pay Yourself First)		
Contribution to savings and investments	250.00	_____
Insurance Premiums		
*Health insurance, Medicaid and Medicare	250.00	_____
*Renters or homeowners insurance	15.00	_____
*Automobile insurance	70.00	_____
Housing Costs		
*Housing payment (rent or mortgage)	800.00	_____
*Utilities (gas, electricity, water, garbage)	100.00	_____
Transportation Costs		
*Automobile payment	200.00	_____
*Fuel (gasoline/diesel)	100.00	_____
*Automobile repairs and maintenance	50.00	_____
*Public transportation fees	50.00	_____
*Automobile license and registration (yearly fee)	20.00	_____
Food Costs		
Food at the grocery store	300.00	_____
Meals at restaurants	350.00	_____
Snacks away from home (coffees, treats)	30.00	_____
Non-food kitchen supplies (plastic wrap, dish soap)	30.00	_____
Communication and Computers		
*Cell phone	110.00	_____
*Internet	60.00	_____
*Cable/satellite television	40.00	_____
Medical Costs Not Covered by Insurance		
*Medical care	100.00	_____
Clothing and Personal Care		
Clothing	250.00	_____
Personal care (shampoo, haircuts, cosmetics, laundry, etc.)	150.00	_____
Entertainment		
Movies, books, and other entertainment	200.00	_____
Total Expenses	\$5,401.3	\$ _____
Net Gain or Net Loss (Income less Expenses)	\$98.70	\$ _____