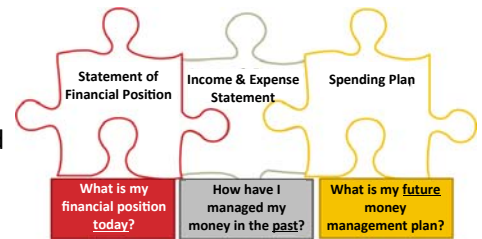


Income and Expense Statement

Advanced Level

Do you know where your money is coming from and where it is going? An **Income and Expense Statement** is an important financial management tool that summarizes your **past** transactions to determine how you are earning and spending your money. It helps you objectively evaluate your past financial decisions.

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. Reviewing your Income and Expense Statement can help you establish financial goals, increase your net worth, lead to the reduction in money stress and improve your financial well-being.



Components of the Income and Expense Statement are described below.

Income

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

Earned income

Earned income is any money earned from work, such as:

- Wages or salary - Gross Income** is an individual's income earned as salary or wages before taxes and other deductions. It is important to record your gross income and not your **net income** (take home pay) in the income section of your Income and Expense Statement. Taxes and other deductions from your paycheck will be listed as expenses in the expense section of your Income and Expense Statement. **Net Income** is what is left in your paycheck after taxes and other deductions. Net income is often referred to as "take home pay."
- Commissions/tips/bonuses** – A commission is income earned upon a sale and is often calculated as a percentage of the purchase price. It is sometimes paid in addition to a wage or a salary. Realtors receive a commission once the sale of property is complete between two parties. Sales associates at some stores receive a commission on items purchased by customers who they have assisted. Tips are sums of money given to someone as a way of rewarding them for quality service. Tips are commonly earned by those in customer service fields such as restaurant servers, hair stylists, and taxi drivers. A bonus is an amount of money added to wages on a seasonal basis as a reward for good performance. This sum of money is paid in addition to the employee's wage or salary.
- Tax refunds** – Tax refunds received from your state and federal government are considered earned income, because they reflect over-withholding from your paycheck in a prior period.

Employer Address City, State Zip Code	Net Income
Evan Jones	\$1277.60
One-thousand seventy seven dollars and 60/100	
Employer	

Income, continued

Unearned Income

Unearned income is 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 financial investments during the time period of the Income and Expense Statement.
- **Money from savings and investments** – Any money withdrawn from savings or received from sale of a financial investment and used to pay for expenses during the time period on your Income and Expense Statement
- **Sales of assets** – The amount of money earned from the sale of an asset such as a car, jewelry, a home, or a business you own. Selling an asset can be an important source of income to cover expenses, especially unexpected expenses. But, it is important to understand that this action lowers your net worth (the monetary value of everything you own, minus your debt). And, like tapping your savings to cover expenses, asset sales are not a source of income that you can rely upon in the next time period, because once you've sold an asset it is gone. For example, if you use some of your savings to throw a party, you have a smaller savings balance available next month to cover emergencies or any other spending. Only you can judge whether the party was “worth it,” but you will definitely have fewer assets to start the next month. If you sell your car to pay for tuition at your community college, (invest in yourself) you may be temporarily poorer, but the decision can eventually pay off in terms of higher earning potential. A decision to sell assets to pay for current spending requires careful thought. But, if you face a time period in which your expenses are going to exceed the rest of your income, selling assets (or tapping savings) can be a better choice than using credit, because you avoid paying interest on a loan.
- **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** – Child support is court-ordered money paid for the care of one's minor child.

Received Income from Government Programs

There are many different government programs that offer a form of temporary income for people who qualify. Examples of federally funded government programs include Workers' Compensation, Social Security, and Unemployment Benefits. Any scholarships and grants provided by the government should also be included in this section of income.



What forms of income do you have?

Expenses

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)	\$

An **expense** is money spent. All expenses are divided into the following categories: **taxes, saving and investing, insurance, housing, transportation, food, and other.**

Taxes:

Taxes include income, payroll, and property taxes. Income and payroll taxes are deducted directly from your paycheck. Refer to your paycheck stub to find out the amount you pay. Property taxes, such as those on houses and vehicles are usually charged annually by state or local governments and are billed directly to the owner. These taxes are reflected on the Income and Expense Statement within the expense category to which they apply, such as housing or transportation. Sales and excise taxes are usually added to the price of an item purchased and charged at the point of sale, so they are reflected on the Income and Expense Statement within the costs of specific items purchased.

Expenses, continued

Saving and Investing

The Saving and Investing category of expenses includes any portion of current income that is saved and/or invested for future use. This money may be placed in a savings account at a depository institution, or it may be invested in financial assets such as stocks and bonds. Often these investments are made through a retirement account. Some employers sponsor retirement accounts for workers and deduct the employee's contribution to the account directly from a person's paycheck. The amount can be found on a paycheck stub (just like income and payroll taxes).

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, life and disability and property and liability (purchased to cover losses related to home and automobile).

Housing

There are many expenses associated with housing. Perhaps the largest housing expense is the monthly payment made to pay your rent or **mortgage**. A mortgage payment is applied to the balance of the home loan used when purchasing housing. In addition to the monthly payment, utilities such as your electric, water, and garbage service bills must be paid. In some situations your utilities are included in your monthly rent. Property taxes (paid only by those owning property), maintenance costs, and household furnishings (furniture, appliances, etc) are other costs associated with housing. Homeowner and renter's insurance is another housing - related cost.

Transportation

There are two primary 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 own your own car you may have a monthly 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

Purchases from a store that include food and some household items (cleaning materials and other consumable goods,) fall into the "food" category. Be sure to include all meals and drinks purchased away from your home as expenses in this category.



What are five expenses you currently have?

Expenses, continued

Other

Other expenses incurred by people may include:

- Family member care: Expenses paid for the care of children (daycare costs) or elderly parents.
- Communication and computers: This includes your internet, cell phone, and tablet monthly service plans, plus any communication device purchases and computer-related purchases and maintenance costs.
- Medical costs: Any out-of-pocket costs not covered by insurance including monthly prescriptions or over-the-counter medications.
- Clothing and personal care: This category includes clothing purchases, laundromat charges and personal care expenses including shampoo, toothpaste, haircuts, and cosmetics, etc.
- Educational expenses: Includes tuition payments, costs associated with private lessons or tutoring, supplies (paper, books, pens, etc.) and dues to professional organizations
- Pet care: Expenses include pet food, veterinary costs and medicine, toys, grooming, and boarding.
- Entertainment: Entertainment varies from person to person, but includes cable or satellite television, movies, music and the device on which it is played, and vacations just to name a few.
- Gifts and charitable contributions: Donations to a charitable cause or gifts to family members.
- Credit costs not included elsewhere: These expenses may include credit card payments or other payments toward liabilities not included in other expense categories.

You have values, needs and wants that are different than others and help determine which expense categories are included in your Income and Expense Statement. This statement should be customized to reflect you. The more specific you make your categories, the greater your chance 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 when tracking your income and expenses. We can easily trick ourselves into thinking we earn more and spend less than we actually do. Tracking our income and expenses can be overwhelming so 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 short period of time (such as a month) to get an idea of how much you typically spend, 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 can use the notepad feature or another application to record income and expenses. Investigate the numerous free or paid apps that are available to help you do this.

Tracking Income and Expenses, continued

- Keep receipts - To track expenses, keep all of your receipts for a specific period of time. Some apps actually let you scan receipts and will categorize them according to the type of expense.
- Depository institution account statements - If you use online banking with your depository institution then most likely your banking website will include a record of your account statements. If you don't have access to online banking make sure you file away your monthly (hard copy) statements.
- Money management computer software program - If you use a money management computer program, it will create an Income and Expense Statement for you as long as you are diligent about entering your financial information.



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 can easily subtract your expenses from your income. Your goal should be to have income (from all sources other than drawing down savings or selling assets) greater than expenses. This would create a **net gain**. This means you are making more than you are spending and therefore you are living within your means. A net gain also allows you the added advantage of some flexibility in paying unanticipated expenses. Think about using your net gain to increase your savings or investments.

If your expenses are greater than income, you have a **net loss** and are spending more than you are earning. For many, the money used to cover the gap in income would most likely come from borrowing (credit). A consistent net loss across many time periods will make it challenging to increase your net worth. Take another close look at your spending habits and obligations, as well as your earnings. Maybe there are changes you could make to decrease the possibility of a monthly net loss. Can you decrease your spending or increase your income? Developing a personal spending plan (or budget) is another financial tool that will help you plan your spending.

Income — Expenses ■ Net Gain or Loss