



Managing Your Money: Where Does All the Money Go?

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Managing Your Money: Where Does All the Money Go?

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

After you have set your goals, as you did in Circular 591, *Managing Your Money: Where do I Begin*, the next step is to learn where your money is being spent. Then you can make a realistic financial plan. This might be a hard job for some people; others will find it very rewarding. No matter how you feel, it must be done before you can start to develop your own plan. This information is essential for high-quality, future financial decisions. Invest the time now for a better payoff later.

What Do You Owe?

It is necessary to list all of your credit obligations before you can analyze your total financial situation. Use Work Sheet 1 to gain a clear idea of all of your credit obligations—both loans and credit card use. The next step is to analyze your cash flow.

What Is Cash Flow?

Your cash flow is simply the money going into your pocket and out again. It is matching your income with your expenses. Sounds simple doesn't it? It really is. But very few people take the time to keep track of what actually comes in and goes out each month.

Next, use Work Sheet 2. For the most accurate look at your budget, an entire year's income and expenses should be kept. That's really a lot of work. But to help you learn what records you will need, this work sheet provides space for two months. For additional work sheets, please refer to Guide G-258, *Managing Your Family's Money*, which is available from NMSU's Cooperative Extension Service.

First, take time to collect all of your bills, receipts and check ledgers, which will help you monitor your spending for the month. (It could be last month's, the current month, or both.) Another way to monitor your spending is to use a daily expense tracker in which you record all the cash that you spend on a daily basis. Include both fixed and flexible expenses. Do you know the difference?

Fixed expenses are items, such as rent, mortgage, car payment and other regular installment payments, which basically stay the same each month and for which you are committed for a period of time.

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

If you recently became self-supporting or are starting a household for the first time, it may be difficult to find complete records. Do the best you can for now and start keeping track of as many expenses as you can. Start writing down everything you spend for at least a week.

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The more accurate and complete the work sheet, the easier and more effective your financial planning will be.

The Bottom Line

If your income exceeds expenses, you will have money to put into a savings plan to use towards achieving your financial goals. However, if income does not cover all expenses, see what you might do to increase your income or decrease your expenses. Take a look at your budget to see if you can find some spending leaks. We'll be discussing this problem in an upcoming lesson.

The most critical time to try to control fixed expenses is before you commit to an obligation. Are there other options you need to consider? Is there a way for you to reduce some of your flexible expenses?

Know Your Net Worth

You have already taken the first step in developing a money management plan by completing the first two work sheets. You also need to determine "where you stand" overall by preparing a net worth statement.

The net worth statement is the best indicator of your financial position at a particular point in time. It will help you determine the progress made toward your own financial goals.

Net worth is the amount you get when you subtract everything you owe from everything you own. This information also can be useful when you apply for a loan, write your will, borrow money, determine insurance needs or settle a divorce.

Use Work Sheet 3, to figure your total financial worth at this moment. List all of your assets—the things you own. List the value of things like your house or furniture as the amount you could get if you wanted to turn that item into cash today. Next, list all of your liabilities—the amounts you still owe. This is the total amount you would need to repay if you hit the lottery and could repay the debts in full today.

What Are Your Assets?

Assets are any financial or material possessions that have monetary value. Remember these must be valued at the current market value. That is, what you could sell them for today, not what you paid for them, what you "hope" they are worth, or what you could get if you waited for the ideal time to sell. They include:

- Cash on hand or in savings accounts (including certificates of deposit or checking accounts and money in "piggy banks")
- Stocks, bonds, mutual funds
- Cash (not face) value of life insurance
- Money others owe you (but only if you can be reasonably sure they will repay)
- Annuities, retirement plans
- Employee benefits, such as company stocks
- Your home
- Other real estate, business interests
- Automobiles, trucks, other vehicles
- Household furnishings, clothing, antiques, jewelry, books, coins, artworks

What Are Your Liabilities?

Liabilities are the financial obligations or debts you owe to other people or institutions. The information you gathered for Work Sheet 1 should help you fill out this portion of the net worth form. List the amount you would need to repay the loan in full. Included are:

- Mortgages
- Installment loans (cash, auto)
- Department store and credit card debts
- Taxes
- Unpaid bills (medical, utilities)
- Any other liabilities

Total your assets and your liabilities. Subtract the liabilities from the assets. The result is your financial net worth. This number may not mean a lot to you as a single number, but if you do this once a year, it can help you track your progress. This doesn't mean it should go up every year, and it certainly is not an indication of your value as a person. But it can help you see what is happening to your overall financial picture. You should not compare your net worth to someone else's due to different values, goals and situations.

Now that you have taken the time to complete these work sheets, how do you feel about your financial situation? Happy? Relieved? Discouraged? If you are a bit discouraged, realize that a negative net worth statement may easily happen to someone just starting out on their own or to young families. Just as a photograph shows how you looked at one specific time, the net worth statement reflects your financial situation at only one point in time. It should be revised at least once a year or as your financial situation changes.

If you are not satisfied with your net worth and want it to grow, you will want to develop a plan to increase it. More income, decreased living expenses and/or more investment growth are some alternatives.

To increase your savings, you may have to cut spending in some areas. Make sure that your savings and investments are yielding the best financial return for your situation. You may want to reduce your present debt level by making regular payments and not adding any other debts.

If you are like most people, your overall goal will be to increase your net worth each year or at least until you retire or begin paying for something big like your children's college education. Developing a financial plan means taking control of what you have now and disciplining yourself to manage your money to reach the goals you have set for yourself and your family.

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

For additional information, you can request Guide G-258, *Managing Your Family's Money*, from your county Extension office or you can visit our Web site at: <http://www.cahe.nmsu.edu/pubs/>

WORK SHEET 2

Income and Expenses

Income:	Month 1	Month 2
Your take home pay		
Spouse's/partner's take home pay		
Child support/ alimony payments		
Unemployment insurance		
TANF		
Pension retirement		
Social Security		
Interest dividends		
Other (list)		
Total Income		
Fixed expenses:		
Rent/mortgage (principal, taxes, insurance)		
Life insurance		
Medical/health insurance		
Vehicle insurance		
Disability insurance		
Household insurance		
Car payments		
Other loan payments		
Savings		
Emergency savings		
Other (list)		
Total Fixed Expenses		
Flexible expenses		
Utilities (electric, gas, water, phone, fuel oil)		
Total credit card payments (see Work Sheet #1)		
Auto upkeep		
Food costs (at home and away from home)		
Clothing		
Household supplies		
Medical/dental		
Recreation/entertainment		

WORK SHEET 2

Income and Expenses (Cont.)

Income:	Month 1	Month 2
Total Fixed Expenses (Cont.)		
Church donation/other charities		
Child care		
Education		
Personal allowances		
Other (list)		
Total Flexible Expenses		
Total Expenses		
Total Income–Total Expenses		

WORK SHEET 3

Net Worth Statements For Three Years

Assets owned	Date _____	Date _____	Date _____
Cash on hand	_____	_____	_____
Cash in checking accounts	_____	_____	_____
Cash in savings accounts	_____	_____	_____
Cash value of life insurance	_____	_____	_____
Savings bonds*	_____	_____	_____
Money other people owe you (that they will repay)	_____	_____	_____
Furniture and appliances*	_____	_____	_____
Miscellaneous personal property* (furs, jewelry, antiques, heirlooms, boats, art)	_____	_____	_____
Cars*	_____	_____	_____
Home*	_____	_____	_____
Other real estate*	_____	_____	_____
Stocks*	_____	_____	_____
Bonds*	_____	_____	_____
Mutual funds*	_____	_____	_____
Government securities*	_____	_____	_____
Annuities and other retirement plans	_____	_____	_____
Other assets*	_____	_____	_____
Total assets	\$ _____	\$ _____	\$ _____

* Current market value—what you could get for the item if you were to sell it today.

WORK SHEET 3 (CONT.)

Liabilities owed	\$ _____	\$ _____	\$ _____
Mortgage and liens	_____	_____	_____
Car loan	_____	_____	_____
Installment debts	_____	_____	_____
Personal loans	_____	_____	_____
Life insurance loans	_____	_____	_____
Credit cards	_____	_____	_____
Other charge accounts	_____	_____	_____
Other unpaid bills	_____	_____	_____
Total liabilities	_____	_____	_____

Your Total Net Worth

	Date _____	Date _____	Date _____
Total assets	_____	_____	_____
Total liabilities	_____	_____	_____
Net worth = assets - liabilities	_____	_____	_____

To find more resources for your home, family or business,
visit the College of Agriculture and Home Economics on the World
Wide Web at www.cahe.nmsu.edu.

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