

**ASSIGNMENT # 3**

FROM\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

1. Review and Complete exercise 3.11a
2. Enter computations on Form 3.01 Maria’s Cash Flow Statement and total the amounts for Cash In, Cash Out, and calculate the Net Cash Flow. Answer the following questions.

|  |  |
| --- | --- |
| Is Maria's annual "cash flow" positive or negative?  |  |
| By how much is her cash flow positive or negative?  |  |
| How long will it take her to reach her savings goal at this rate? |  |
| What suggestions do you have for Maria? |  |

**Email this sheet with your answers AND Maria’s complete cash flow statement (form 3.01) to the instructor.**

1. **READ 3.00 – How to prepare a Cash Flow Statement**

|  |  |
| --- | --- |
| 1. **FILL OUT FORM 3.01 – Cash Flow Statement - for yourself.**
 | **Done** **Yes or NO** |
| Sit down with a cup of coffee (or a glass of wine) and estimate your PRIOR year’s sources and uses of cash. Do NOT stress if the estimate is not 100% accurate; your estimates will be close. This is sufficient for now. |  |
| Then, when you have more time, follow the instructions at the end of this assignment to fine-tune your estimates. It is very typical to underestimate cash outflow, but there are tricks to getting it more accurate. This is a good time to book a private appointment with the instructor to review. |

**To be prepared for class #4**

1. **READ 4.0 – Introduction to Personal Financial Statements and Balance Sheets.** Learn the difference between assets and liabilities and some other financial lingo.
2. **PRINT 4.01 – FORM for Personal Financial Statement.** (either the Excel or the PDF version)
3. **PRINT- 4.11a – EXERCISE \_Calculate Maria's Personal Financial Statement – part 1** – the exercise will be done during the next class, and having it PRINTED is helpful.

**TO GET AN ACCURATE CASH FLOW STATEMENT (CFS)- BUDGET**

1. List no more than 25 categories to describe your incoming and outgoing cash. See next page for suggestions – make the choices meaningful to you.
2. Decide on the year forwhich you will prepare the Cash Flow Statement –On your first attempt, it is best to look at the prior year, verify the amounts, and then use that to project expenses in the following year.
3. Gather your W-2 and Tax Return for the year in question to determine both earnings, tax withholdings, and other deductions. All need to be entered on the CFS.
4. Download into Excel or Numbers – your prior year's BANK and CREDIT CARD

transactions. Each transaction should be a separate line item, listing in different columns the

* 1. Transaction date
	2. From whom the cash was received or the name of the vendor paid
	3. Amount of transaction
1. For each transaction**,** enter in another column.
	1. the bank name or credit card company for each transaction
	2. A category name or number.
2. After all line items are coded, with the category name or number, Sort and subtotal by category. This should give you the exact amount received/spent per category.
3. Transfer those amounts to the Cash Flow form 3.01.
4. Determine if you were Cash Positive of Cash Negative – this is the whole point of the exercise.

Note that the deposits made into your account for payroll will show up as the “net amount” received. On the budget form, you need to make some adjustments – Under CASH IN - enter your GROSS INCOME – Under CASH OUT, enter any payroll deductions.

**Preparing a detailed Cash Flow Statement should be done once a year.**

COMMON CASH FLOW CATEGORIES

It is best to break down items into no more than 25 categories. Here are some typical groupings:

**Sources of Cash**

* 1. W-2 earnings
	2. Interest and Dividends on Investments
	3. 401K or IRA Distributions,
	4. Social Security Income
	5. Rental Property Income
	6. Business Related Income – including side gigs
	7. One-time events
		+ *Sale of Assets*
		+ *Tax Refunds*
		+ *Insurance proceeds*
		+ *Gifts or "loans from family and friends."*
		+ *Inheritance*

**Uses of Cash –**

* 1. Housing with Maintenance Costs (rent, mortgage, real estate taxes, utilities, maintenance, housekeeping, and housing insurance policies, HOA assessments) – phone charges can be listed here.
	2. Food at home, including sundry cleaning & household items, non-prescription drugs
	3. Transportation (public transportation, car payments, car insurance, tolls, maintenance, commuting costs)
	4. Discretionary – expenses you can control that are not essential to living (Charity contributions, clothing, entertainment, sports, gifts, vacations/travel, restaurants)
	5. Children or other dependents (childcare, education, clothing, sports programs)
	6. Medical costs, including medical insurance premiums, prescription drugs, doctor/hospital copay, orthodontics, dental care)
	7. Insurance (other than housing and medical – i.e., life insurance, umbrella policies)
	8. Taxes (withholding, estimated, due)
	9. Debt Repayment (credit cards more than current month charges, student loans)
	10. Savings, including deductions for 401K retirement plan
	11. One-time expenses, including significant home improvements, downpayments on large expenses not covered above
	12. Business Related Expenses (if you mingle your business and personal Budget) or Professional Fees

\*Restaurants can be grouped with food, but frankly, as it is a discretionary item it often is best set with other discretionary items.