

Financial Plan Project Notes

CLASS 1

typical goals of FP, objectives. (4)

- **Financial statements needed**
  - Balance sheet
  - Income statement
  - Statement of change in net worth
- **Information Needed To Create These Statements**
  - Assets: investments and personal
  - Liabilities: current and long term
  - Income: salary, bonuses, investment
  - Expenses: living, interest, taxes, insurance ++
  - Insurance policies
  - Retirement plans
  - Wills and Trusts
  - Estate planning documents
  - Powers of attorney

Balance Sheet

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Assets: owned property listed by liquidity
Liabilities: money owed
Net worth= assets - liabilities

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THESE NOTES FROM SLIDES:
CH 4 REV 2-23-09

Current liabilities
Credit card debt and unpaid bills
Long-term liabilities
Debts of larger assets
mortgages
student loans

Assets valued at fair market value
Liabilities represent principal owed

Balance Sheet

Assets				**Liabilities**		
Cash/Cash Equivalents				**Current Liabilities**		
JT	Checking	2,100		JT	Credit Cards	10,000
JT	Savings	48,000		JT	Home Mortgage	4,200
	Total Cash/Cash Equiv.	50,100			**Total Current Liabilities**	14,200
Invested Assets				**Long-term Liabilites**		
JT	Stock Portfolio	15,000		JT	Mortgage on Home	288,000
W	401(k)	9,000			**Total Long-term Liabilities**	288,000
H	IRA	14,500				
	Total Invested Assets	38,500			**Total Liabilities**	**$292,200**
Personal-Use Assets					**Net Worth**	**$223,900**
JT	Home	420,000				
W	Jewelry	5,000				
JT	Automobile	2,500				
	Total Personal-Use Assets	427,500				
Total Assets		**$516,100**			**Total Liabilities & Net Worth**	**$516,100**

Income Statement

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Summary of client’s income and expenses over time, usually one year
Use to compare to budgeted financial goals
May be estimated in advance and used for budgeting or projections (pro-forma)

Income
- Employment
- Investments
- Other (social security, pension)

Minus

Expenses
- Fixed- car payment
- Variable- utilities
- Discretionary- entertainment

Equals

Savings or retirement plan contributions

Income
- Employment
- Investments
- Other (social security, pension)

Minus

Savings or retirement plan contributions

Equals amount available for:

Expenses
- Fixed- car payment
- Variable- utilities
- Discretionary- entertainment

Income Statement			
For the Year 2006			
INCOME			
Employment			
Husband	85,000		
Wife	60,000		145,000
Investment Income			500
Total Inflow			**$145,500**
Savings			
Reinvestment	500		
401(k) Deferral	7,200		
Total Savings			**$7,700**
Available for Expenses			**$137,800**
EXPENSES			
Fixed Expenses			
Necessities	25,000		
Debt Payments	36,000		
Total Fixed Expenses			**$61,000**
Variable Expenses			
Entertainment	1,200		
Clothing	3,600		
Total Variable Expenses			**$4,800**
Total Expenses			**$65,800**
Discretionary Cash Flow			**$72,000**

Changes in Net Worth

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Summarizes non-cash flow changes in net worth not recorded on the income statement

Changes in value of assets resulting from appreciation or depreciation

If an asset other than cash is exchanged for other assets

If assets other than cash are received by gift or inheritance

If assets other than cash are given to charities or noncharitable donees

Statement of Changes in Net Worth		
For the Year Ending 12/31/06		
Additions to Net Worth		
Add (Noncash Flow Adjustments)		
Increases in Assets:		
Appreciation of Assets		
Home		5,000
Increase in Investment Contributions		
401(k) Employer Contribution		2,000
Decrease in Liabilities:		
Home Mortgage		12,000
Credit Card Debt		2,000
Total		**$21,000**
Reductions in Net Worth		
Subtract (Noncash Flow Adjustments)		
Decrease in Assets:		
Depreciation of Assets		
Automobile		(500)
Total		**($500)**
Net - Noncash Flow Change in Net Worth		**$20,500**

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Target of three to six months

Target of 1.0 to 2.0

Debt ratios—total debt to net worth, long-term debt to net worth, debt to total assets, long-term debt to total assets, housing costs to gross income, housing and debt payments to gross income

Target of 10% (age dependent)

$$\frac{\text{Discretionary cash flow + Savings}}{\text{gross income}}$$

Target of 10%

Performance ratios—savings ratios and investment performance ratios

Target depends on age and objectives

$$\text{Total ROI} = \frac{\left(\text{EI} - \text{BI}\right) - \text{Money Added}}{\text{Average Invested Assets}}$$

$$\frac{\text{Investments Assets}}{\text{gross income}}$$

Gives number of years of income assets could replace.

Should be 10-20 at retirement with interest making up the rest.

VERTICAL GROWTH ANALYSIS

- Vertical analysis:
  - Balance sheet—each item presented as a percentage of total assets
  - Income statement—each item presented as a percentage of total income
- Growth analysis:
  - Calculates the growth rate of certain financial variables over time using time value of money tools
  - Income growth (CPI +1% target)
  - Savings growth
  - DCF