

PROJECT 3 – CASH FLOW AND BALANCE SHEETS

INSTRUCTOR OVERVIEW

Financial statements are compilations of personal financial data that describe an individual's current financial condition. Financial statements present a summary of assets and liabilities, as well as income and spending.

INSTRUCTIONAL OBJECTIVES

A financial statement captures a person's overall wealth at a specific point in time. In this lesson, students will:

- Define terms associated with financial statements
- Incorporate data into financial statements
- Determine if an item is an asset, liability, or both
- Compare and contrast the benefits of financial statements

CENTRAL QUESTION OR PROBLEM

How do I determine my wealth?

ASSIGNMENT RESOURCES

Students may use any resource to complete this project. Resources could include websites to value assets or personal financial statements.

ASSIGNMENT LENGTH

One week

NOTES

- I incorporated the in-class activity (Student Handouts 3B and 3C) because students were having trouble understanding the concepts in the textbook. I have students work in groups of two to three, with each group sharing a worksheet and a set of scenario cards.
- You will need to make a set of scenario cards for each group of students, or you could simply provide a copy of the cards sheet and have students check them off as they work through them. If you decide to make the card sets, print the cash flow and balance sheet cards on different colors of paper. I use green for the cash flow set and orange for the balance sheet set.
- I give students about 15 minutes to work through the activity and then we discuss. The activity allows them to practice the concepts before applying them to their personal balance sheet. Note that Student Handouts 3D and 3E are answer keys for the two in-class activities. You may wish to distribute the answers when the students have completed the in-class activities and are ready to discuss the process.
- Students have struggled with the idea that an item can be both an asset and a liability. For example a car is an asset, but if there is still a loan balance it is also a liability.
- Students are often surprised at how much wealth they have accumulated.

PROJECT 3 ASSESSMENT

CASH FLOW AND BALANCE SHEET RUBRIC

This project has a total value of 20 points.

The student did not follow directions. (minus 2)	
The student created a cash flow statement that was complete. The cash flow statement provided detail of income and expenses. (plus 10) The student attempted to create a cash flow statement but they were not thorough. (plus 5) The student did not attempt. (0 points)	
The student created a balance sheet that was complete. Detailed information was provided for assets and liabilities. (plus 10) The student attempted to create a balance sheet but they were not thorough. (plus 5) The student did not attempt. (0 points)	
The assignment was late. (loss of one point per day)	
Total	

PROJECT 3 OVERVIEW: CASH FLOW AND BALANCE SHEETS

HOW DO I DETERMINE MY WEALTH?

Financial statements capture your overall wealth at a specific point in time. In this lesson, you will:

- Define terms associated with financial statements
- Incorporate data into financial statements
- Determine if an item is an asset, liability, or both
- Organize personal financial data into a spreadsheet to determine net worth

Financial statements are compilations of personal financial data that describe an individual's current financial condition. They present a summary of assets and liabilities, as well as income and spending.

ASSIGNMENT INSTRUCTIONS

After completing the in-class activities (Student Handouts 3B and 3C), use the answer keys to check your work (Student Handouts 3D and 3E). Once you are comfortable with how to categorize assets, liabilities, income, and expenses, you will use the templates provided (Student Handouts 3F and 3G) to create your own financial statement.

Points to remember:

- A cash flow statement shows how much money has come in as income, and how much money has left in expenses. By subtracting your expenses from your income, you can tell if you have a surplus or a deficit in income.
- Fixed expenses recur at specific intervals. Rent and car payments are examples of fixed expenses. Variable expenses change over time. Examples of variable expenses are food and utilities.
- Once you have completed entering your income and expenses, you will need to determine if you have a monthly surplus (income exceeds expenses) or a deficit (expenses exceed income).
- Having a budget and using a cash flow statement can help you anticipate shortages and surpluses. For example, in December your outflow will be greater than normal because you would like to purchase Christmas gifts. However, in the summer months your cash inflow may be higher because of a summer job. By using a cash flow statement, you can more easily identify the flow of income and expenses.
- A balance sheet is a snapshot of what is happening in your financial life. It covers your overall wealth at a specific point in time. An asset is everything you own that has monetary value. Assets can be classified as monetary (cash or near cash), tangible (personal property) or investment assets (stocks and bonds).

PROJECT 3 OVERVIEW (CONTINUED)

- Liabilities are what you owe. Liabilities can be classified into short-term (debt repaid within one year) or long-term (longer than one year).
- Remember that an asset can also be a liability. For example, a car with a value of \$5,000 would be listed in the asset column. If there were an outstanding loan balance of \$2,500, it would be reflected in the long-term liability column.
- Once you have listed the value of your assets and balances of your liabilities, you will determine your net worth. $\text{Assets} - \text{Liabilities} = \text{Net Worth}$
- By completing a balance sheet, you can easily identify strategies to increase net worth. You should update your balance sheet at least once a year.

PROJECT 3 ACTIVITY

MONTHLY CASH FLOW EXERCISE

Use the following scenario cards to fill out the Monthly Cash Flow Statement worksheet.

<p>You pay a \$150 car payment.</p>	<p>You receive your monthly gross salary of \$2,000.</p>	<p>You pay rent of \$450 per month.</p>	<p>You pay your medical insurance of \$75 a month.</p>
<p>You pay your renter's insurance of \$20.</p>	<p>You pay your car insurance of \$50.</p>	<p>You pay for monthly groceries \$200.</p>	<p>Your monthly utilities are due. You owe \$125.</p>
<p>Your monthly bill for gasoline comes in and you must pay \$75.</p>	<p>It's your mother's birthday. You purchase a \$50 present.</p>	<p>Taxes come out of your paycheck. Federal Tax \$150 State Tax \$50 Social Security \$150</p>	<p>You go to a movie with a friend that costs \$10.</p>
<p>You put \$100 into savings for a vacation at the beach.</p>	<p>You hit a pothole and have a flat tire. You must pay \$75 for a new one.</p>	<p>You go out to dinner with friends. Your bill is \$25.</p>	<p>You find the perfect outfit for your date this weekend. You pay \$100 for the outfit.</p>

PROJECT 3 ACTIVITY: MONTHLY CASH FLOW EXERCISE

MONTHLY CASH FLOW STATEMENT WORKSHEET

Complete this worksheet with the information from the green scenario cards.

Income	
Gross salary	
Total Income	
Expenditures	
Fixed Expenses	
Rent	
Renter's insurance	
Automobile loan payment	
Automobile insurance	
Medical insurance	
Revolving savings fund	
Federal income tax	
State income tax	
Social Security tax	
Total Fixed Expenses	
Variable Expenses	
Food	
Utilities	
Gasoline and maintenance	
Clothing and personal upkeep	
Gifts	
Miscellaneous	
Total Variable Expenses	
Total Expenses	
SURPLUS (DEFICIT)	

PROJECT 3 ACTIVITY

BALANCE SHEET EXERCISE

Use the following scenario cards to fill out the Balance Sheet worksheet.

You have \$1250 in your checking account.

You have \$1750 in your revolving savings account.

You purchased a computer last summer and it is valued at \$500.

You received a graduation gift of a watch and it is valued at \$300.

You purchased new furniture for your apartment. It is valued at \$1,000, but you still owe \$400.

Your car is valued at \$5,000, but you still owe \$1,500.

You owe \$300 on a credit card.

You have put \$1,000 into a Roth IRA.

You participate in your employer's 401k program. You have saved \$5,000.

You need a root canal procedure at your dentist office. You owe \$400.

You just cashed your income tax refund of \$1,000.

You purchased a flat-screen TV that is valued at \$500.

You have \$75 in cash.

You have a student loan balance of \$20,000.

You purchase a condo for \$60,000 and you owe \$45,000.

You and your best friend move into your new condo. They pay you \$450 a month in rent.

PROJECT 3 ACTIVITY: BALANCE SHEET EXERCISE

BALANCE SHEET WORKSHEET

Complete the balance sheet worksheet with the information from the orange scenario cards.

Assets	\$	Liabilities	\$
Monetary Assets		Short-term Liabilities	
Savings account		Credit card	
Checking account		Medical debt	
Cash			
Other			
Total Monetary Assets		Total Short-term Liabilities	
Tangible Assets		Long-term Liabilities	
Computer		Automobile loan	
Jewelry		Home mortgage	
Furniture		Furniture loan	
Automobile		Student loan	
Television			
Home			
Total Tangible Assets		Total Long-term Liabilities	
Investment Assets			
Roth IRA			
401K Retirement Account			
Total Investment Assets			
Total Assets		Total Liabilities	
Assets			
Liabilities			
Net Worth			

PROJECT 3 ACTIVITY

CASH FLOW STATEMENT ANSWER KEY

This chart shows the answers for the worksheet associated with the green cards.

Income	
Gross salary	\$2,000
Total Income	\$2,000
Expenditures	
Fixed Expenses	
Rent	\$450
Renter's insurance	\$20
Automobile loan payment	\$150
Automobile insurance	\$50
Medical insurance	\$75
Revolving savings fund	\$100
Federal income tax	\$150
State income tax	\$50
Social Security tax	\$150
Total Fixed Expenses	\$1,195
Variable Expenses	
Food	$\$200 + \$25 = \$225$
Utilities	\$125
Gasoline and maintenance	$\$75 + \$75 = \$150$
Clothing and personal upkeep	\$100
Gifts	\$50
Miscellaneous	\$10
Total Variable Expenses	\$660
Total Expenses	\$1,855
SURPLUS (DEFICIT)	\$145

PROJECT 3 ACTIVITY

BALANCE SHEET WORKSHEET ANSWER KEY

This chart shows the answers for the worksheet associated with the orange cards.

Assets	\$	Liabilities	\$
Monetary Assets		Short-term Liabilities	
Savings account	\$1,750	Credit card	\$300
Checking account	\$1,250	Medical debt	\$400
Cash	\$1,000 + \$75 = \$1,075		
Other	\$450		
Total Monetary Assets	\$4,525	Total Short-term Liabilities	\$700
Tangible Assets		Long-term Liabilities	
Computer	\$500	Automobile loan	\$1,500
Jewelry	\$300	Home mortgage	\$45,000
Furniture	\$1,000	Furniture loan	\$400
Automobile	\$5,000	Student loan	\$20,000
Television	\$500		
Home	\$60,000		
Total Tangible Assets	\$67,300	Total Long-term Liabilities	\$66,900
Investment Assets			
Roth IRA	\$1,000		
401K Retirement Account	\$5,000		
Total Investment Assets	\$6,000		
Total Assets	\$77,825	Total Liabilities	\$67,600
Assets	\$77,825		
Liabilities	\$67,600		
Net Worth	\$10,225		

PROJECT 3 ACTIVITY

MY CASH FLOW STATEMENT

Income		Expenses			
		Fixed Expenses	\$	Variable Expenses	\$
	\$				
Wages #1 (gross)		Rent/Mortgage		Food (home)	
Wages #2 (gross)		Home Insurance		Food (meals away)	
Interest Income		Real Estate Taxes		Food (for entertainment)	
Dividend Income		Vehicle Loan #1		Entertainment	
Sales Commissions		Vehicle Loan #2		Electricity	
Bonuses		Automobile Insurance		Natural Gas	
Tips		Life Insurance		Water/Sewer	
Gifts		Medical Insurance		Garbage Collection	
Tax Refunds		Retirement Fund #1		Cable TV	
Other		Retirement Fund #2		Telephone	
Other		Student Loan Payments		Cell Phone	
Total Income		Federal Income Tax		Medical	
		State Income Taxes		Clothing	
		City Income Taxes		Gifts	
		Social Security Taxes		Personal Care	
		Personal Property Taxes		Personal Allowances	
		Savings #1		Gasoline	
		Savings #2		Vehicle Maintenance	
		Savings #3		Education Expenses	
		Other		Charitable Contributions	
		Other		Other	
		Other		Other	
		Total Fixed Expenses		Other	
				Other	
				Miscellaneous	
				Total Variable Expenses	
				TOTAL EXPENSES	
				SURPLUS (DEFICIT)	

PROJECT 3 ACTIVITY

MY BALANCE SHEET

Assets	\$	Liabilities	\$
Monetary Assets		Short Term Liabilities	
Cash		Credit Card #1	
Checking Account #1		Credit Card #2	
Checking Account #2		Credit Card #3	
Savings Account #1		Credit Card #4	
Savings Account #2		Medical Debts	
Savings Account #3		Past Due Utilities	
Cert. Of Deposit #1		Past Due Rent	
Cert. Of Deposit #2		Personal Loans	
Money Market Acc't		Other	
Other		Other	
Other		Other	
Total Monetary Assets		Total Short Term Liabilities	
Tangible Assets		Long-term Liabilities	
Vehicle #1		Vehicle Loan #1	
Vehicle #2		Vehicle Loan #2	
Home #1		Home Mortgage #1	
Home #2		Home Mortgage #2	
Clothing		Student Loan(s)	
Furniture		Furniture Loans	
Entertainment Electronics		Computer Loans	
Home Appliances & Equip.		Home Appliance Loans	
Computer Equipment		Personal Loans	
Computer Software		Other	
Jewelry		Other	
Recreation Items		Total Long-term Liabilities	
Personal Property		TOTAL LIABILITIES	
Other Tangible Assets			
Total Tangible Assets			

PROJECT 3 ACTIVITY: MY BALANCE SHEET (CONTINUED)

Investment Assets			
Stocks			
Bonds			
Mutual Fund #1			
Mutual Fund #2			
Employer Retirement Account(s)			
IRA Accounts			
Life Ins. Cash Value(s)			
Real Estate Investments			
Collectibles			
Other Investment Assets			
Total Investment Assets			
TOTAL ASSETS			NET WORTH