

## **Making Finance Personal: Project-Based Learning for the Personal Finance Classroom**

### **Project 3: Cash Flow and Balance Sheets**

#### **Lesson Author**

Julie Kornegay

#### **Activity Description**

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.

#### **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

#### **Essential Question**

How do I determine my wealth?

#### **Assignment Materials**

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

#### **Assignment Length**

One week

#### **Author's 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)	
<p>The student created a cash flow statement that was complete. The cash flow statement provided detail of income and expenses. (plus 10)</p> <p>The student attempted to create a cash flow statement but they were not thorough. (plus 5)</p> <p>The student did not attempt. (0 points)</p>	
<p>The student created a balance sheet that was complete. Detailed information was provided for assets and liabilities. (plus 10)</p> <p>The student attempted to create a balance sheet but they were not thorough. (plus 5)</p> <p>The student did not attempt. (0 points)</p>	
The assignment was late. (loss of one point per day)	
<b>Total</b>	

## **Project 3 Overview: Cash Flow and Balance Sheets**

### **Handout 3A: 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).
- 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: Cash Flow and Balance Sheets

#### Handout 3B: Monthly Cash Flow Exercise

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

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

**Project 3 Activity: Cash Flow and Balance Sheets**

**Handout 3B: Monthly Cash Flow Statement Worksheet (Continued)**

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

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

## Project 3 Activity: Cash Flow and Balance Sheets

### Handout 3C: 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: Cash Flow and Balance Sheets

#### Handout 3C: Balance Sheet Exercise (Continued)

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

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

### Project 3 Activity: Cash Flow and Balance Sheets

#### Handout 3D: Cash Flow Statement Answer Key

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

<b>Income</b>	
Gross salary	\$2,000
<b>Total Income</b>	\$2,000
<b>Expenditures</b>	
<b>Fixed Expenses</b>	
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
<b>Total Fixed Expenses</b>	\$1,195
<b>Variable Expenses</b>	
Food	$\$200 + \$25 = \$225$
Utilities	\$125
Gasoline and maintenance	$\$75 + \$75 = \$150$
Clothing and personal upkeep	\$100
Gifts	\$50
Miscellaneous	\$10
<b>Total Variable Expenses</b>	\$660
<b>Total Expenses</b>	\$1,855
<b>SURPLUS (DEFICIT)</b>	\$145

## Project 3 Activity: Cash Flow and Balance Sheets

### Handout 3F: Balance Sheet Worksheet Answer Key

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

<b>Assets</b>	<b>\$</b>	<b>Liabilities</b>	<b>\$</b>
<b>Monetary Assets</b>			
Savings account	\$1,750	Credit card	\$300
Checking account	\$1,250	Medical debt	\$400
Cash	\$1,000 + \$75 = \$1,075		
Other	\$450		
<b>Total Monetary Assets</b>	<b>\$4,525</b>	<b>Total Short-term Liabilities</b>	<b>\$700</b>
<b>Tangible Assets</b>		<b>Long-term Liabilities</b>	
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		
<b>Total Tangible Assets</b>	<b>\$67,300</b>	<b>Total Long-term Liabilities</b>	<b>\$66,900</b>
<b>Investment Assets</b>			
Roth IRA	\$1,000		
401K Retirement Account	\$5,000		
<b>Total Investment Assets</b>	<b>\$6,000</b>		
<b>Total Assets</b>	<b>\$77,825</b>	<b>Total Liabilities</b>	<b>\$67,600</b>
<b>Assets</b>	<b>\$77,825</b>		
<b>Liabilities</b>	<b>\$67,600</b>		
<b>Net Worth</b>	<b>\$10,225</b>		

## Project 3 Activity: Cash Flow and Balance Sheets

### Handout 3F: My Cash Flow Statement

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

## Project 3 Activity: Cash Flow and Balance Sheets

### Handout 3G: My Balance Sheet

Assets		Liabilities	
<b>Monetary Assets</b>		<b>Short Term Liabilities</b>	
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	
Certificate of Deposit #1		Past Due Rent	
Certificate of Deposit #2		Personal Loans	
Money Market Account		Other	
Other		Other	
Other		Other	
<b>Total Monetary Assets</b>		<b>Total Short Term Liabilities</b>	
<b>Tangible Assets</b>		<b>Long-term Liabilities</b>	
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 & Equipment		Home Appliance Loans	
Computer Equipment		Personal Loans	
Computer Software		Other	
Jewelry		Other	
Recreation Items		<b>Total Long-term Liabilities</b>	
Personal Property		<b>TOTAL LIABILITIES</b>	
Other Tangible Assets			
<b>Total Tangible Assets</b>			

**Project 3 Activity: My Balance Sheet (Continued)**

<b>Investment Assets</b>			
Stocks			
Bonds			
Mutual Fund #1			
Mutual Fund #2			
Employer Retirement Account(s)			
IRA Accounts			
Life Insurance Cash Value(s)			
Real Estate Investments			
Collectibles			
Other Investment Assets			
<b>Total Investment Assets</b>			
<b>TOTAL ASSETS</b>			<b>Net Worth</b>