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SELECT Portfolio Management, Inc.
REGISTERED INVESTMENT ADVISOR
Money Management, Inc.
REGISTERED INVESTMENT ADVISOR

Income and Expense Statement

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What is an income and expense statement?

One of the most important steps in budgeting is reviewing income and expenses. Everyone knows that money tends to slip out faster than it comes in, but often we lose track of how much goes where. An income and expense statement provides a snapshot that quickly shows your household's spending pattern in relation to its total income. With it, you can make informed budget-adjustment decisions more easily.

The income and expense statement may be done weekly, monthly, quarterly, or yearly

The income and expense statement reports income earned and spent during a specified period. That period can be whatever best meets your budgeting needs. A period of several months to a year is often used to obtain a broad overview.

Comparing two or more income and expense statements is more meaningful when each reflects an equal time period (e.g., comparing one month to another or one year to another).

Example(s): Last year Hal left his old employer to join ABC, Inc. His former employer paid Hal weekly, but ABC pays him monthly. If Hal's income and expense statements were done weekly last year, they would need to be done weekly this year as well to do an apples-to-apples comparison.

Use your income and expense statement to estimate your future income and expenses

An income and expense statement can be used to forecast what you expect your income and expenses to be during some future period. It is an extremely useful budgeting and financial planning tool. Although it is based on projected income and expenses, its accuracy is usually an adequate base for budgeting and planning purposes.

Income and expense statements help identify problems and opportunities in budgeting

As with cash flow analysis, you can compare income and expense statements for successive periods to learn several things. For example, you can learn which categories are increasing and decreasing, whether net income is shrinking or growing, and at what rate these changes are occurring. Net income--the amount of income you have left when all the bills are paid--increases your net worth.

Interpreting the results: Are you living within your means?

If your expenses exceed your income, you have a negative bottom line or a "net loss." That is, you are depleting your net worth, a situation that sometimes requires prompt and serious attention. Hopefully, you have a substantial net gain, meaning that your net worth is indeed growing. You can divide total expenses by total income to learn what percent of income you are spending. Compare this to previous periods to learn if your ability to grow your net worth is improving. The percent of income you spend or save is meaningful only to you and your own budget objectives. Certainly, a higher net worth will enable you to do more and live more comfortably in coming years.

A retirement plan contribution is not truly an expense item. It is income being saved for future use. However, such contributions are often viewed as expenses in a cash flow analysis and budget because that cash is temporarily unavailable for other needs.

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