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DRAFT

Small Business Consulting Practice Aid

ASSISTING CLIENTS IN DEVELOPING PERSONAL FINANCIAL PLANS

May 1985

12163M6CP-KAP1(R5)

Preface

This MAS practice aid is one in a series devoted to the kinds of management advisory services most often provided to a CPA's small business clients. Even though the same services may also be provided to large clients, practitioners' experience indicates that providing advice and assistance to small closely held businesses often differs from similar engagements with larger clients. Small businesses frequently do not find it cost effective to have the breadth of financial and accounting expertise present in larger businesses. Hence, the nature and depth of the practitioner's gathering and analysis of the data may differ when providing services to small and large businesses. Most important, the personal plans, finances, and desires of the small business owner may have a significant impact on current and future operations of a small business, and the practitioner must take them into consideration when providing advice and assistance.

MAS small business consulting practice aids do not purport to include everything a practitioner needs to know or do to undertake a specific type of service. Furthermore, engagement circumstances differ, and, therefore, the practitioner's professional judgment may cause him to conclude that an approach described in a particular practice aid is not appropriate.

Table of Contents

	<u>Page</u>	
		1
Introduction	3	2
Scope of this Aid	4	3
The Planning Process	7	4
(1) Initial Interview	9	5
(2) Follow-up Interview	12	6
(3) Preparation of the Current Situation Summary	13	7
(4) Review of the Current Situation Summary	13	8
(5) Analysis by Team of Advisors	14	9
(6) Preparation of the Plan	14	10
(7) Review of the Plan	15	11
(8) Implementation	15	12
(9) Updating the Plan	15	13
The Practitioners' Relationship to Other Professionals and		14
Fee Arrangement	17	15
Conclusion	19	16
Appendix I - Illustrative Client Data Collection Forms		17
and Instructions.	20	18
Appendix II - Sample Final Report to Client.	101	19
Bibliography	168	20
		21
		22
		23
		24
		25
		26
		27
		28

INTRODUCTION

In the course of providing services to their small business clients, practitioners often discover that the personal finances and financial objectives of the small business owner-manager have a substantial impact on the operations and fortunes of the business itself. For example, if the owner-manager requires a large salary to support his family or lifestyle at a point in time when the business cannot afford a substantial cash drain, the financial foundation of the business can weaken. This is a major cause of small business failure.

To help avoid such occurrences, practitioners often provide clients with guidance and advice on personal financial planning. The service involves the client, his family, personal advisers and the practitioner in evaluating the client's current and anticipated personal finances and establishing an appropriate financial plan.

The personal financial planning service may establish a need for subsequent MAS engagements. For example, while helping to develop a plan, the practitioner may be requested to help prepare financial projections for the client's business that would guide the client in safely drawing cash from his operations.

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SCOPE OF THIS PRACTICE AID

This practice aid provides practitioners with procedures, illustrative data forms and a sample client report for an engagement to help develop a personal financial plan for a small business owner-manager and his family. The forms contained in the practice aid are examples of tools the practitioner and client can use in gathering data on the client's personal financial status. Practitioners may design and utilize their own forms to gather information appropriate for the particular circumstances of the client and the engagement situation.

The practice aid describes a nine-step planning process. It includes instructions on using the illustrative client data forms for each step, as appropriate. The nine steps are as follows:

1. Initial Interview
2. Follow-up Interview
3. Preparation of the Current Situation Summary
4. Review of the Current Situation Report
5. Analysis by a Team of Advisors
6. Preparation of the Plan
7. Review of the Plan
8. Implementation
9. Updating the Plan

The engagement, as described in this practice aid, can be cost-effective because much of the financial data survey is based on information derived from questionnaire forms that have been com-

pleted by the client. Costs may also be reduced through the use of microcomputers to design the data forms and gather, prepare, and analyze the information.

The practitioner's role in the engagement includes determining which data forms the client can prepare, and explaining how to use them. The practitioner would also assist when necessary in completing the forms, analyzing the client financial data, facilitating the input and services of other advisors (insurance and stockbrokers, attorneys, bankers, and so on) and documenting the completed financial plan.

Certain considerations are pertinent to the development and use of this practice aid.

- o The general advice and coordination assistance provided to the client by the practitioner are management advisory services and are subject to MAS standards.
- o Tax considerations are also very important in personal financial planning. The practitioner may provide tax advice in addition to the MAS services mentioned above or may assist the client in selecting another practitioner to provide tax advice. All tax advice is subject to professional tax standards.
- o In evaluating a client's assets, jointly owned property would be considered separately. State laws relative to jointly owned property would also be considered.

o If the practitioner is to be involved in the audit, compilation, or review of personal financial statements, reference should be made to the AICPA Personal Financial Statements Guide.

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THE PLANNING PROCESS

The personal financial planning engagement in this practice aid is based on the concept that the CPA can assist owner-managers of small businesses to more effectively manage their family's personal financial affairs. The engagement involves obtaining a clear understanding of the client's present circumstances, putting together a team of advisers, devising a plan for solving problems and taking advantage of opportunities, and providing the information necessary to implement and evaluate the financial plan.

The practitioner's role is to coordinate the planning process and to assist the client, the client's family, and their existing advisers, to develop and maintain the plan.

The engagement begins when the practitioner meets with the client and his family to begin data collection. The data is as of December 31 for the prior year and as of December 31 for the current year. He selects the forms to be completed by the client and, if necessary, helps prepare them. The forms are left with the family so they may review them and collect any missing information.

Once all the basic information is collected, the family and the practitioner meet to review the material and discuss the family's plans in general terms. The practitioner then prepares the "Current Situation Report."

When the report is complete, the client, the practitioner, and any other adviser who is requested to participate, meet to review

the report and decide upon the advisers that should be involved in the review and analysis. The report is then sent to the different advisers to identify problems and opportunities and to develop recommendations.

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When the recommendations are returned, the practitioner reviews them and determines if there are any conflicts to be resolved. He works on the resolution of the conflicts and begins preparation of the plan.

Once the plan is completed, the client, the practitioner, and the other advisers meet for a final review and discuss the implementation process. The steps to be taken are agreed upon and a more detailed timetable is developed.

The plan is evaluated and revised annually. The practitioner collects current information and updates the plan to show changes from the previous year. The plan is sent to the other advisers for analysis. It is then revised to reflect the new information and, if appropriate, the new recommendations. All the involved parties meet to review the updated plan and to discuss the actions to be taken during the coming year.

With this approach, the client will develop a better understanding of his financial future and be more aware of how his different advisers can help him to reach his objectives. Also, the individual advisers will have a better understanding of the client's situation and can more effectively serve him.

The following sections describe the planning process in detail.

(1) Initial Interview

The purpose of the initial interview is twofold: to introduce the client to the planning approach and to start the data collection process which involves selecting forms and the recording of available information.

The interview begins with a discussion of the underlying concepts as outlined previously in this practice aid. As part of this discussion, the practitioner explains the final report to the client (Appendix B). It is important that the client understand what is included in the report and how the different components will be prepared.

Once the client understands the approach, the next step is to explain the data collection process. Using the "summary interview sheet," the practitioner discusses the different forms that will be used and the purpose of each. A sample of the sheet is presented on page 26. He reviews the list of supporting documents and identifies those the client has available. The practitioner explains how these forms, along with copies of the supporting documents, are filed to facilitate preparation of the plan and analysis by the various advisers.

The practitioner next reviews the general instructions for preparing the selected forms with the client. At this point, the practitioner explains that actual figures are being collected for

the two prior years. He also explains that the figures should be as of December 31 to permit a tie-in with the tax information and facilitate year to year comparisons.

The data collection process begins with preparation of the personal information forms. One general information form is prepared for the family as a whole and a personal information form is prepared for each member of the family. Similarly, an adviser form is prepared for each adviser.

The collection of the net worth information begins by reviewing the summary interview form and discussing the types of information to be collected. Next, the practitioner reviews and prepares with the client the individual forms, beginning with cash and proceeding through the list. All forms will not necessarily be used for each client. The Risk Analysis information is handled in a similar manner. First, the summary interview form is reviewed and then individual forms are prepared.

The income and expense analysis is slightly more complicated. A separate "Income Form" is prepared for each source of income. The practitioner works with the family members to decide how best to categorize their expenses. He then prepares an "Expense Form" for each category. It is quite likely that the family members will not be able to identify how they spent a significant portion of their income. If that is the case an "other" category can be used to bring things into balance and encourage the family to keep more detailed records in the future.

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The income tax analysis is straightforward. The practitioner transfers the figures from the individual's prior year's tax return to the appropriate place on the income tax summary. He then reviews the projected income and expenses developed in the previous step to determine which figures need to be adjusted for the current year.

The cash flow analysis may be a little difficult for some families to understand. They may not initially see how it differs from the Income and Expense Analysis. The practitioner might point out that this analysis deals with cash receipts and expenditures that are not ongoing. For example, they include the sale of stock, the purchase of a new car, a bequest from the estate of a relative or a loan from a bank. Again, the practitioner may need to create an "other" category to account for the uses the family cannot specifically identify.

The retirement analysis, disability analysis and estate analysis use the information developed in the preceding steps. Each income and expense item is examined to determine how it would be affected by retirement, disability or death. The disposition of assets and liabilities and the use of insurance are also considered. From these analyses come the projections that are used to complete the various forms. These figures will be revised as more indepth analyses are performed by the practitioner or advisers who specialize in these areas.

The summary figures are transferred to the summary financial

profile form. This provides the client with an overview of the current situation and begins to identify the opportunities that exist and the problems that need to be solved.

It is quite likely that some of the information needed to complete the forms will not be available at the time of the initial interview. The missing information would be clearly identified so that the family may collect it and have it available for the follow-up interview. It is also suggested that the file be left with the family so they may review the information and have a place to file additional information collected.

Finally, the practitioner would set a tentative date for the follow-up interview. Two or three weeks are usually adequate to collect the missing information and to think of other items that should be included in the analysis.

(2) Follow-up Interview

In the follow-up interview the forms are reviewed and to ensure that all the required information is available and has been properly recorded. The interview also provides the practitioner with the subjective information needed to properly prepare the Current Situation Report.

The interview includes the client, the client's family and the practitioner. The practitioner begins the interview by reviewing each of the forms and asking clarifying questions. As was the case with the initial interview, the practitioner starts with the

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personal information and proceeds in sequence through all of the forms.

The practitioner explains to the family the process that will be used in preparing the Current Situation Report. He may also indicate that he may be calling to clarify a point, get some additional information or answer any questions the family may have. Finally, a tentative date for reviewing the Current Situation Report is set.

(3) Preparation of the Current Situation Report

The purpose of this step in the planning process is to translate the information contained on the various forms into a concise and coherent report reflecting the client's current situation.

In this phase of the planning process the practitioner organizes the forms and prepares the supporting text. Upon completion of the report, a copy is sent to the client so he may review it before next meeting.

(4) Review of the Current Situation Report

The practitioner and client meet to review the contents of the Current Situation Report and determine which advisers may need to be involved in the analysis.

The content of the report is reviewed from two points of view. First, the numerical data are reviewed to ensure that they accurately reflect the client's current situation. Second, the

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report is reviewed to ensure that textual material properly reflects the client's goals and the client's desired approach for attaining them.

As specific opportunities and problems are identified, the competence of the existing advisers should be discussed to determine if they have the expertise to participate in the engagement. If they do not, other potential advisers would be identified and the client encouraged to meet with them to determine if they should participate.

(5) Analysis by the Team of Advisers

Each adviser receives the Current Situation Report, reviews it and carefully analyzes the portion relating to his area of expertise. He may wish to use his own resources to develop supporting analyses and would contact the client or the practitioner to obtain additional information.

After completing the analysis, the adviser prepares a memo summarizing the problems and opportunities and discussing his recommendations. The memo, along with copies of any supporting documents he has developed, is sent to the practitioner.

(6) Preparation of the Plan

The purpose of this step is to resolve any conflicting recommendations and to prepare the plan.

The memos from the advisers are each reviewed and then filed as they are received by the practitioner. Once they have all been

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received, the recommendations are reviewed for consistency. Any problems that exist are solved before further steps are taken.

The practitioner prepares the summary recommendation form and the supporting text. He then prepares text detailing the effects the recommendations will have on the different aspects of the client's financial situation.

(7) Review of the Plan

In this step in the planning process, the advisers meet to review the plan and to discuss the implementation of the recommendations.

The practitioner initiates the meeting by reviewing the personal financial plan and providing a brief recap of the process that has been used in its preparation. The individual advisers then briefly discuss their recommendations, the cost involved and the timetable for implementing the recommendations. The practitioner monitors the discussion and prepares a memo outlining the decisions that were made.

(8) Implementation of the Plan

Implementation is usually conducted by the individual advisers. The practitioner monitors implementation activities to ensure that everything is being done in a timely manner.

(9) Updating the Plan

With this step the client and his family, and the team of advisers, update the plan as necessary.

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In updating the plan, the practitioner prepares a draft revision and meets with the family to collect current information. After the practitioner reviews the new data and outlines the significant changes, he would prepare a memo covering the significant changes and send it to the client and all of the advisers.

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The advisers review the memo, identify any new problems and opportunities and then make their recommendations. They add any changes they are aware of that are not reflected in the writer's memo. The practitioner revises the plan and sends copies to the client and the advisers.

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At that point the practitioner arranges a meeting with the advisers to discuss their recommendations, the cost involved, and the timetable for implementing the recommendations.

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The practitioner would again prepare a memo outlining the decisions that were made.

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THE PRACTITIONER'S RELATIONSHIP TO OTHER
PROFESSIONALS AND FEE ARRANGEMENT

Underlying the approach to personal financial planning in this practice aid is the belief that a combination of skills must be integrated to support the client in managing his financial affairs. The practitioner would consider all input from the client's accountant, attorney, banker, insurance agent, real estate broker, stockbroker and trust officer. If the client is to receive the maximum benefit, three things must happen: (1) a team of advisers must be selected that has the skills needed to meet the client's specific needs; (2) the advisers must develop an understanding of the client's overall needs; and (3) the actions of the individual advisers must be integrated into an overall plan.

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The practitioner begins the process by developing the current situation report. This report organizes the basic facts regarding the client's situation and guides the practitioner in helping the client select a team of advisers. The practitioner would have a working relationship with the other advisers so he can match their skills to the client's needs. It is important that each adviser be able to develop a good relationship with the client as well as with the other advisers. Selecting the right advisers is critical to the overall success of the engagement and thus, the practitioner would work closely with the client in making sound decisions in selecting them.

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The current situation report provides all advisers the basic information they require to analyze the client's needs from their

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particular perspective. Depending on the complexity of this situation, the practitioner may send each adviser a copy of the report, talk with each individually, or meet as a group. Each would prepare recommendations based upon his particular area of expertise and then return them to the practitioner.

It is quite likely that the client will not have the resources to implement all of the actions proposed by the various advisors. The practitioner, therefore, must work with the client to determine which actions are most critical and help him allocate his resources so that he can implement those actions on a timely basis.

One way the practitioner can address fees is to bill the client for his hours and let the other professionals do likewise. The problem with this approach is that it leaves the client exposed to the possibility of one of the advisers doing and billing more than is required. An alternative approach is for the accountant to discuss the fee arrangement with the other advisors and give the client an estimate for the entire planning procedure.

CONCLUSION

The planning process illustrated here provides a technique for providing assistance to a client with regard to personal financial planning. While this process is viewed here as a separate service (or MAS engagement), it is often performed concurrently with other services.

The steps may be carried out in different ways, using a variety of meeting arrangements, letters and phone calls between the client, the advisers and the practitioner. Special meetings are desirable, as is the involvement of the client's family members as well as advisers.

Personal financial planning is an important method of helping a small business client overcome some of the less visible challenges to operating a successful and continuing business.

Practitioners who provide the means to develop a rounded, effective plan by serving as a coordinator as well as adviser, as illustrated in this aid, provide a valuable service to their clients.

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Appendix I

Illustrative Client Data

FORMS AND INSTRUCTIONS

	<u>Page</u>	
		1
		2
<u>General Instructions</u>	23	3
		4
<u>Control Forms</u>		5
0001 Summary Interview Form	25	6
0002 List of Supporting Documents	27	7
		8
<u>Personal Information</u>		9
		10
0101 General Family Info.	29	10
0102 Personal Info.	31	11
0103 Adviser Info.	33	12
		13
<u>Net Worth Analysis</u>		14
		15
0201 Cash	35	15
0202 Certificates of Deposit & Bonds	37	16
0203 Securities	39	17
0204 Business Investments	41	18
0205 Real Estate	43	19
0206 Retirement Plans	45	20
0207 Other Assets	47	21
0208 Liabilities	49	22
0209 Summary	51	23
		24
		25
		26
		27
		28

Risk Analysis

0301	Property & Casualty	53	
0302	Automobile	55	1
0303	Liability	57	2
0304	Health	59	3
0305	Life Insurance	61	4
0306	Disability	63	5
0307	Summary	65	6

Income and Expense Analysis

0401	Income	67	8
0402	Living Expense	69	9
0403	Summary	71	10

Income Tax Analysis

0501	Summary	73	11
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Cash Flow Analysis

0601	Source	75	12
0602	Use	77	13
0603	Summary	79	14

Retirement Analysis

0701	Income/Expense	81	15
0702	Summary	83	16

Disability Analysis

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0801	Income/Expense	85	
0802	Summary	87	
<u>Estate Analysis</u>			1
0901	Estate Valuation	89	2
0902	Tax Analysis	91	3
0903	Income/Expense	93	4
0904	Summary	95	5
			6
<u>Summary Analysis</u>			7
1001	Financial Profile Summary	97	8
			9
<u>Recommendations</u>			10
1101	Summary	99	11
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GENERAL INSTRUCTIONS

Collecting and organizing basic information about the client and his or her family is the key to successfully developing a personal financial plan. The financial planning file and the forms described in the following pages have been designed to facilitate this process.

The summary interview form and the heading information repeated at the top of each form are used to control the data collection and organization processor. On the summary interview form the practitioner indicates the number of each type of form that has been prepared for the client.

The practitioner uses the list of supporting documents form to control the documents that are submitted by the client. If appropriate, the practitioner makes copies of the documents so they can be made a permanent part of the client's file.

While the illustrative client data forms provided in this practice aid are designed for completion by the client or practitioner, the instructions corresponding with each form are chiefly for the purpose of orienting the practitioner in the use of this planning technique. After becoming familiar with the forms, the practitioner would advise and instruct the client how to complete the selected forms during the initial interview phase of the planning process.

The forms in the "01" through "09" series are used to collect the basic data. Each series corresponds to a section of the final

report. The final two forms are used to develop the overall summary and the summary of recommendations.

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SUMMARY INTERVIEW FORM
INSTRUCTIONS

Purpose: To control the forms used in gathering information
about the client

Procedure:

1. As each form is completed, enter the number of forms of that type that are used and place the date prepared in the "P" column under status. If supporting documents are obtained, indicate how many in that column.
2. When the forms have been completed and reviewed, place the date reviewed in the "R" column under status.
3. File the document in the financial planning file.

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Page _____ of _____

Form # and Name	Number of Forms Used	---Status---		Support Documents	
		P	R		
<u>Personal Information</u>					1
0101 General Family Info.	_____	_____	_____	_____	2
0102 Personal Info.	_____	_____	_____	_____	
0103 Adviser Info.	_____	_____	_____	_____	
<u>Net Worth Analysis</u>					3
0201 Cash	_____	_____	_____	_____	4
0202 Certificates & Bonds	_____	_____	_____	_____	
0203 Stocks	_____	_____	_____	_____	5
0204 Business Investments	_____	_____	_____	_____	
0205 Real Estate	_____	_____	_____	_____	6
0206 Retirement Plan	_____	_____	_____	_____	
0207 Other Assets	_____	_____	_____	_____	7
0208 Liabilities	_____	_____	_____	_____	
0209 Summary	_____	_____	_____	_____	8
<u>Risk Analysis</u>					
0301 Property & Casualty	_____	_____	_____	_____	9
0302 Automobile	_____	_____	_____	_____	
0303 Liability	_____	_____	_____	_____	10
0304 Health	_____	_____	_____	_____	
0305 Life Insurance	_____	_____	_____	_____	11
0306 Disability Insurance	_____	_____	_____	_____	
0307 Summary	_____	_____	_____	_____	12
<u>Income and Expense Analysis</u>					
0401 Income	_____	_____	_____	_____	13
0402 Expense	_____	_____	_____	_____	
0403 Summary	_____	_____	_____	_____	14
<u>Income Tax Analysis</u>					
0501 Summary	_____	_____	_____	_____	15
<u>Cash Flow Analysis</u>					
0601 Source	_____	_____	_____	_____	16
0602 Use	_____	_____	_____	_____	
0603 Summary	_____	_____	_____	_____	17
<u>Retirement Analysis</u>					
0701 Income/Expense	_____	_____	_____	_____	18
0702 Summary	_____	_____	_____	_____	
<u>Disability Analysis</u>					
0801 Income/Expense	_____	_____	_____	_____	19
0802 Summary	_____	_____	_____	_____	
<u>Estate Analysis</u>					
0901 Estate Evaluation	_____	_____	_____	_____	21
0902 Tax Analysis	_____	_____	_____	_____	
0903 Income/Expense	_____	_____	_____	_____	22
0904 Summary	_____	_____	_____	_____	
<u>Summary Analysis</u>					
1001 Financial Profile	_____	_____	_____	_____	23
<u>Recommendations</u>					
1101 Summary	_____	_____	_____	_____	24

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LIST OF SUPPORTING DOCUMENTS
INSTRUCTIONS

Purpose: To control the supporting documents that are provided
by the client.

Procedure:

1. When a document is received from the client, record the date in the appropriate column. If there are multiple documents of one type, list them individually on the blank lines.
2. If the document is a copy, write "copy" in the Date Returned column.
3. In the "Copy Filed" column, record where the document has been filed.
4. Sign the form and give a copy to the client.
5. When any documents that were taken to be copied are returned, the client signs the form indicating that they have been returned.

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LIST OF SUPPORTING DOCUMENTS

Form # 0002

Name _____ SS# _____ Page _____ of _____

<u>Document</u>	<u>Copy Filed</u>	<u>Date Received</u>	<u>Date Returned</u>	
Husbands's Will	_____	_____	_____	1
Wife's Will	_____	_____	_____	2
Income Tax Return	_____	_____	_____	3
Insurance Policies	_____	_____	_____	4
Property and Casualty	_____	_____	_____	5
Automobile	_____	_____	_____	6
Liability	_____	_____	_____	7
Health	_____	_____	_____	8
Disability	_____	_____	_____	9
Life	_____	_____	_____	10
Trust Agreements	_____	_____	_____	11
Buy/Sell Agreements	_____	_____	_____	12
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_____	_____	_____	_____	14
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I received the above documents for inclusion in the financial planning file.

Date _____ Signed _____

I received from the personal financial planning team the originals provided for inclusion in the financial planning file.

Date _____ Signed _____

Purpose: To record general information about the family.

Procedure:

1. Record the family's name and list the family members that are included in the analysis.
2. Record the phone numbers and the address.
3. Under "notes" reference, for example, any areas of interest shared by multiple members of the family. This information enhances the practitioner's understanding of the effects of the family lifestyle on personal financial planning.

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Name _____ SS# _____ Page ___ of ___

Family Name : _____

Family Members:

_____	_____	1
_____	_____	2
_____	_____	3
_____	_____	4
_____	_____	5

Phone Numbers: Home: _____

Business phone-Husband

Business phone-Wife

Home Address: _____

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PERSONAL INFORMATION
INSTRUCTIONS

Purpose: To record general information about each member of the client's family.

Procedure:

1. Record the name, birth date and social security number.
2. Outline the individual's current situation. If the individual is working or is away at school, include the name of the organization, school, position, and address.
3. Outline the individual's goals and objectives.
4. If the family member is an older child, he may be involved in preparing this form.

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Name _____ SS# _____ Page ___ of ___

First Name and Middle Initial: _____

Birthdate: _____ SS # _____

Current Situations:

Goals and Objectives:

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ADVISER INFORMATION
INSTRUCTIONS

Purpose: To record information pertaining to the client's
advisers.

Procedures:

1. Record the capacity in which the adviser is functioning,
for example, life insurance agent, accountant, lawyer.
2. Record the adviser's name, business organization, address
and both home and business phone numbers.
3. Record the approximate date of the initial professional
contact with the advisers.
4. Describe the types of services the adviser has provided
during the past two years.

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ADVISER INFORMATION

Form # 0103

Name _____ SS# _____ Page ___ of ___

Function: _____

Advisor's Name: _____

Home Phone Numbers: Home _____ Business Office _____

Organization/Firm: _____

Address: _____

Initial Contact Date: _____

Services Provided:

Notes:

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CASH
INSTRUCTIONS

Purpose: To record information pertaining to the client's
banking and saving accounts.

Procedure:

1. Record the name of the financial institution, the type of account, and the interest rate.
2. Using either the checkbook or an appropriate bank statement, determine the balance at the end of the two prior years for each account.
3. In the notes section, indicate any restrictions on the account and outline the assumptions that were made in determining the projected balances.
4. When changes are made, update the projection, record the previous projection in the notes section and outline the reason for making the change.
5. If more than one page is required, carry the subtotal forward to the next page. Indicate the number of pages at the top of the form.
6. Record the total on the Net Worth Summary Form.

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Name _____ SS# _____ Page ___ of ___

Financial Institution	Type of Account and Interest Rate	December 31		
		19X1	19X2	
_____	_____	\$ _____	\$ _____	1
_____	_____	_____	_____	2
_____	_____	_____	_____	3
_____	_____	_____	_____	4
_____	_____	_____	_____	5
_____	_____	_____	_____	6
_____	_____	_____	_____	7
Subtotal		_____	_____	8

Notes:

On this data collection form and the others that follow 19X1 refers to the year before last. 19X2 refers to the immediately previous year. X3 is the current year and X4 and X5 refer to future years.

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CERTIFICATES OF DEPOSIT AND BONDS
INSTRUCTIONS

Purpose: To record information about the certificates and bonds
owned by the client.

Procedure:

1. Record the name of the issuing organization, the interest
rate, and the maturity date.
2. If it is a bond, record the face value next to the name of
the organization.
3. Record the value as of the end of prior years.
4. Record the total of the certificates and the total of the
bonds of the Net Worth Summary form.

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Name _____ SS# _____ Page ___ of ___

Organization(Face Amt.)	Rate of Interest	Maturity	Value		
			December 31 19X1	December 31 19X2	
_____	_____	_____	\$ _____	\$ _____	1
_____	_____	_____	_____	_____	2
_____	_____	_____	_____	_____	3
_____	_____	_____	_____	_____	4
_____	_____	_____	_____	_____	5
_____	_____	_____	_____	_____	6
Subtotal		_____	_____	_____	7

Notes:

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Purpose: To record information pertaining to the client's securities information.

Procedure:

1. Record the name of the organization, the number of shares, the date purchased and the cost. If the security was purchased at different times, record each purchase on a separate line. If the stockbroker has the information, record the total and include the list with the supporting documents.
2. Record the value of the security for the previous two years.
3. If a security owned in a prior year was sold, record the date sold.
4. Record the totals on the Net Worth Summary Form.

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BUSINESS INVESTMENTS
INSTRUCTIONS

Purposes: To record information pertaining to the client's
business investments

Procedure:

1. Record the name of the organization and outline the nature
of the investment, including the date investment was made,
the cost, the basis used in determining the current value
and other pertinent information.
2. Record the value of the investment for the prior two years
in the value column.
3. If there are multiple investments, use a separate sheet for
each investment and record the total of all on the first of
the business investment forms.
4. Include accounts and notes receivable on the first business
investment form.
5. Obtain copies of the documents including financial statements
that describe the investments.
6. Record the amounts of each investment on the Net Worth
Summary form. If there are several investments of the same
type, they may be grouped before recording the figures on
the summary.

Client's Name _____ SS# _____ Page ___ of ___

Organization	Value		
	December 31 19X1	19X2	
_____	\$ _____	\$ _____	1
_____			2
_____			3

Nature of the Investment:

Date: _____

Cost: _____

Basis for determining current value:

Other pertinent information:

Notes:

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REAL ESTATE
INSTRUCTIONS

Purpose: To record information on each piece of real estate
owned by the client.

Procedures:

1. Using a separate sheet for each piece of real estate, describe the property defining the extent of improvements, location of the property, current status, and so on.
2. Record the cost of the property and accumulated depreciation to date.
3. Record the value, for the two previous years.
4. Record the outstanding debt, if any, and the terms related to it.
5. Record the total of all Form #0205 pages on the Net Worth Summary Form.

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Name: _____ SS#: _____ Page ___ of ___

Description: _____

	Value	
	December 31	
	19X1	19X2
Cost	_____	_____
Accumulated Depreciation	_____	_____
Book Value	_____	_____
Market Value	_____	_____
Debt	_____	_____
Terms	_____	_____

If Income Producing:

	December 31	
	19X1	19X2
Rent	_____	_____
Operating Expenses:		
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
Net Cash Receipts	_____	_____
Depreciation	_____	_____
Net Income (Expense)	_____	_____

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RETIREMENT PLAN
INSTRUCTIONS

Purpose: To record the client's retirement planning information.

Procedures:

1. If the husband and wife are members of different plans, prepare a separate sheet for each.
2. Record the name of the employer and the type of plan.
3. Record the balance, annual contribution, and percent vested.
4. Record the projected balance at the time of retirement.
5. Record the projected payment and the method of payment.

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RETIREMENT PLAN

Form #0206

Name: _____ SS#: _____ Page ___ of ___

Employer: _____

Type of Plan: _____

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	<u>Value</u>	
	December 31	
	<u>19X1</u>	<u>19X2</u>
Balance	\$ _____	\$ _____
Annual Contribution	\$ _____	\$ _____
Percent Vested	_____ %	_____ %
Projected Balance at Retirement	_____	\$ _____
<u>Pay Out Method</u>		
Lump Sum	_____	=====
Annual	_____	=====

Other Related Benefits: _____

Notes:

OTHER ASSETS
INSTRUCTIONS

Purposes: To record the client's other assets.

Procedures:

1. Describe the asset.
2. Record the cost of the asset.
3. Record the value of the asset for the two previous years.
4. Record the total on the Summary Net Worth Form. If one or more of the items is significant, record it separately on that form.

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OTHER ASSETS

Form # 0207

Name _____

SS# _____

Page ___ of ___

Description	Cost	Value	
		December 31 19X1	December 31 19X2
_____	_____	\$ _____	\$ _____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
Total	_____	_____	_____

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LIABILITIES
INSTRUCTIONS

Purpose: To record the client's liabilities.

Procedures:

1. For each liability, record the creditor to which it is owed, the type (installment, mortgage, bank notes) and the amount.
2. Record in the note section any special provisions and obtain copies of supporting documents, if appropriate.
3. Compute the total of current liabilities and a total of long term liabilities.*
4. Record the totals on the Net Worth Summary Form.

*Tax liabilities must be prepared in accordance with the AICPA
Personal Financial Statements Guide

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LIABILITIES

Form # 0208

Name _____ SS# _____ Page ___ of ___

<u>Creditor</u>	<u>Type</u>	<u>Interest Rate</u>	<u>Terms</u>	<u>Balance</u>	
				<u>December 31 19X1</u>	<u>December 31 19X2</u>
_____	_____	_____	\$ _____	\$ _____	\$ _____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
Subtotal				_____	_____

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NET WORTH SUMMARY*
INSTRUCTIONS

Purpose: To summarize the information from the other net worth forms.

Procedure:

1. Transfer the appropriate figures from the other forms.
2. Total the amounts to determine the Net Worth.
3. Transfer the figures to the Overall Financial Summary Form.
4. File the forms and the supporting documents in the financial planning file.

* Refer to the AICPA Personal Financial Statements Guide for guidance on the preparation of the Net Worth Summary and other financial statements.

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NET WORTH SUMMARY FORM

Form # 0209

Name _____ SS# _____ Page ___ of ___

	<u>Value</u>		
	December 31 19X1	19X2	
<u>ASSETS</u>			
<u>Current:</u>			
_____	\$ _____	\$ _____	
_____	_____	_____	
_____	_____	_____	
Subtotal	_____	_____	
<u>Business Investments:</u>			
_____	_____	_____	
_____	_____	_____	
_____	_____	_____	
Subtotal	_____	_____	
<u>Other Assets:</u>			
_____	_____	_____	
_____	_____	_____	
_____	_____	_____	
Total Assets	\$ _____	\$ _____	
<u>LIABILITIES</u>			
<u>Current:</u>			
_____	\$ _____	\$ _____	
_____	_____	_____	
_____	_____	_____	
Subtotal	\$ _____	\$ _____	
<u>Long-Term:</u>			
_____	_____	_____	
Subtotal	\$ _____	\$ _____	
Total Liabilities	\$ _____	\$ _____	
<u>NET WORTH</u>	\$ _____	\$ _____	

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PROPERTY AND CASUALTY INSURANCE
INSTRUCTIONS

Purpose: To record information pertaining to the client's property and casualty insurance.

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Procedure:

1. Record the name of the insurance company, the policy number and the previous two year's annual premium. Prepare a separate sheet for each policy.
2. Record the assets that are insured and the amount of insurance on each. Make notes on any special provisions.
3. Obtain a copy of the policy for the files
4. Record the figures on the Risk Analysis Summary Form.

Name _____ SS# _____ Page ___ of ___

Company: _____ Policy #: _____

	December 31	
	19X1	19X2
Annual Premium	\$ _____	\$ _____
Assets Covered		
	\$ _____	\$ _____
Total	\$ _____	\$ _____

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AUTOMOBILE INSURANCE
INSTRUCTIONS

Purpose: To record information pertaining to the client's
automobile insurance.

Procedures:

1. Record the name of the insurance company, the policy number
and the previous two year's annual premium. Prepare a
separate sheet for each policy.
2. Record information on basic components of the coverage.
Note any special provisions.
3. Obtain a copy of the policy for financial planning file.
4. Record the figures on the Risk Analysis Summary Form.

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AUTOMOBILE INSURANCE

Form 0302

Name _____ SS# _____ Page ___ of ___

Company: _____ Policy #: _____

	December 31	
	19X1	19X2
Annual Premium	\$ _____	\$ _____
Deductible	\$ _____	\$ _____
	Insurance Amount	
Comprehensive (AV)	\$ _____	\$ _____
Collision (AV)	_____	_____
Property Damage Liab. (PO)	_____	_____
Bodily Injury Liab. (PP)	_____	_____
(PO)	_____	_____
Uninsured Motorist		
Bodily Injury (PP)	_____	_____
(PO)	_____	_____
Property Damage (PO)	_____	_____

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LIABILITY INSURANCE
INSTRUCTIONS

Purpose: To record information pertaining to the client's
liability insurance.

Procedure:

1. Record the name of the company, the policy number and the
previous two year's annual premium. A separate sheet is
prepared for each policy. If appropriate, ask about
professional liability insurance.
2. Record the amount of insurance coverage provided.
3. Obtain a copy of the policy for the financial planning
file.
4. Record the figures on the Risk Analysis Summary Form.

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LIABILITY INSURANCE

Form 0303

Name _____ SS# _____ Page ___ of ___

Company: _____ Policy #: _____

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	December 31	
	19X1	19X2
Annual Premium	\$ _____	\$ _____
<u>Categories of Coverage</u>		
_____	\$ _____	\$ _____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
Total	\$ _____	\$ _____

Notes:

HEALTH INSURANCE
INSTRUCTIONS

Purpose: To record the client's health insurance information.

Procedure:

1. Record the name of the company, the policy number, and the previous two year's annual premium. If a portion of the premium is paid by the employer, note the total premium as well as the amount paid by the family. If the spouse's insurance is covered by a different policy, prepare a separate form.
2. Describe the coverage.
3. Obtain a copy of the policy for the financial planning file.
4. Record the figures on the Risk Analysis Summary Form.

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Name _____ SS# _____ Page ___ of ___

Company: _____ Policy #: _____

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December 31	
19X1	19X2

Annual Premium	\$ _____	\$ _____
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Description of the Coverage

Deductible	\$ _____	\$ _____
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Per Day Room & Board	_____	_____
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Maternity Benefits	_____	_____
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_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

Notes:

LIFE INSURANCE
INSTRUCTIONS

Purpose: To record the family's life insurance information.

Procedure:

1. Record the name of the company, the policy number, and the previous two year's annual premium. If a portion is paid by the employer, note the total premium as well as the amount paid by the family. If the spouse is covered by a different policy, prepare a separate form.
2. Record the face amount of the policy.
3. If appropriate, record the cash value, loan balance and interest rate on the loan.
4. Note any special provisions of the policy.
5. Obtain a copy of the policy for the files.
6. Record the figures on the Risk Analysis Summary Form.

Name _____ SS# _____ Page ___ of ___

Company: _____ Policy #: _____

Beneficiary: _____ Type: _____

Owner: _____

	December 31		
	19X1	19X2	
Premium	\$ _____	\$ _____	5
Face Amount	\$ _____	\$ _____	6
Cash Value	_____	_____	7
Loan Balance	_____	_____	8
Interest Rate	_____ %	_____ %	9

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DISABILITY INSURANCE
INSTRUCTIONS

Purpose: To record the client's disability insurance information.

Procedure:

1. Record the name of the company, the policy number, and the two previous year's annual premium. If a portion is paid by the employer, note the total premium as well as the amount paid by the family. If the spouse is covered by a different policy, prepare a separate form.
2. Define the disability and the integration level.
3. Record the benefit amount.
4. Obtain a copy of the policy for the files.
5. Record the figures on the Risk Analysis Summary Form.

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DISABILITY

Form # 0306

Name: _____ SS# _____ Page ___ of ___

Company: _____ Policy #: _____

Waiting Period: _____ Integration Level: _____

Definition of Disability: _____

Premium \$ _____ \$ _____

Annual Benefit Amount \$ _____ \$ _____

Notes:

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RISK ANALYSIS SUMMARY
INSTRUCTIONS

Purpose: To summarize the client's risk analysis information.

Procedure:

1. Record the separate figures from the other forms.
2. Transfer the figures to the Summary Financial Profile Form.
3. File all the forms and the supporting documents in the family reference file.

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Name _____

SS# _____

Page ___ of ___

	<u>Insurance Amount</u>		<u>Annual Premium</u>	
	<u>December 31</u>			
	<u>19X1</u>	<u>19X2</u>		
Property and Casualty				1
Dwelling	\$ _____	\$ _____	\$ _____	2
Detached Structure	_____	_____		3
Personal Property	_____	_____		4
Other	_____	_____		5
Automobile			_____	6
Comprehensive	_____	_____		7
Collision	_____	_____		8
Property Damage Liab.	_____	_____		9
Bodily Damage Liab.	_____	_____		10
Uninsured Motorist				11
Bodily Injury	_____	_____		12
Property Damage	_____	_____		13
Health			_____	14
Deductible	_____	_____		15
Per day room and board	_____	_____		16
Maternity Benefit	_____	_____		17
Liability			_____	18
Umbrella	_____	_____		19
Professional	_____	_____		20
Life Insurance	_____	_____	_____	21
Disability Insurance	_____	_____	_____	22
Notes:				23

INCOME
INSTRUCTIONS

Purpose: To record the client's income information.

Procedure:

1. For each income category, record the source providing it,
and the amount for the previous two years.
2. Obtain copies of agreements and other supporting documents.
3. Transfer the total for each type of income or expense to
the Income and Expense Summary Form.

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INCOME

Form # 0401

Name _____

SS# _____

Page ___ of ___

Source	Category of Income	December 31	
		19X1	19X2
_____	_____	\$ _____	\$ _____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
Total		_____	_____

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LIVING EXPENSES
INSTRUCTIONS

Purpose: To record information on the client's regular expenses.

Procedure:

1. Identify expense categories and prepare a separate form for each or alternatively develop a spread sheet matrix.
2. Record the category title.
3. If the amount is constant per month or paid on an annual basis, record the total for the year in the total row.
4. If the amount varies, review canceled checks and estimate the amount spent each month for the two previous years.
5. Record the total in the total row.
6. Explain in the notes section any significant changes or any assumptions made in developing the projections.
7. Obtain copies of supporting documents.

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Name _____ SS# _____ Page ___ of ___

Category _____

<u>Month</u>	<u>December 31</u>		
	<u>19X1</u>	<u>19X2</u>	
January.....	\$ _____	\$ _____	1
February.....	_____	_____	2
March.....	_____	_____	3
April.....	_____	_____	4
May.....	_____	_____	5
June.....	_____	_____	6
July.....	_____	_____	7
August.....	_____	_____	8
September.....	_____	_____	9
October.....	_____	_____	10
November.....	_____	_____	11
December.....	_____	_____	12
Total	_____	_____	13

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INCOME AND EXPENSE SUMMARY
INSTRUCTIONS

Purpose: To summarize the information from the other income and expense forms.

Procedure:

1. Record the amounts from the other income and expense forms.
2. Total the income and expense amounts and compute the difference. Determine if the resulting figure is realistic. If not, consider what income or expense items may be left out.
3. Transfer the total to the Summary Financial Profile Form.
4. File the forms and supporting documents in the financial planning file.

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INCOME AND EXPENSE SUMMARY

Form #0403

Name _____ SS# _____ Page ___ of ___

	December 31		
	19X1	19X2	
<u>INCOME</u>			1
_____	\$ _____	\$ _____	2
_____	_____	_____	3
_____	_____	_____	4
_____	_____	_____	5
_____	_____	_____	6
Total	_____	_____	7
<u>LIVING EXPENSES</u>			8
_____	\$ _____	\$ _____	9
_____	_____	_____	10
_____	_____	_____	11
_____	_____	_____	12
_____	_____	_____	13
_____	_____	_____	14
Total	_____	_____	15
<u>NET SURPLUS (DEFICIT)</u>	\$ _____	\$ _____	16
	_____	_____	17

Notes:

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INCOME TAX SUMMARY
INSTRUCTIONS

Purpose: To summarize income tax information.

Procedure:

1. Obtain a copy of the income tax return for the prior two years.
2. Record the figures on the form.
3. Indicate taxes paid for the prior two years.
4. Transfer the totals to the Summary Financial Profile Form.
5. File the form and the copy of the tax return in the financial planning file.

Note to Reader:

Many software packages are available that permit electronic preparation of income tax information.

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INCOME TAX SUMMARY

Form # 0501

Name _____

SS# _____

Page ___ of ___

	December 31		
	19X1	19X2	
<u>GROSS INCOME</u>			1
			2
			3
	\$ _____	\$ _____	4
	_____	_____	5
	_____	_____	6
	_____	_____	7
Total	_____	_____	8
<u>BUSINESS EXPENSES</u>	_____	_____	9
<u>ADJUSTED GROSS INCOME</u>	_____	_____	10
<u>ITEMIZED DEDUCTIONS</u>			11
	_____	_____	12
	_____	_____	13
<u>Statutory Exclusion</u>	_____	_____	14
Subtotal	_____	_____	15
Exemptions	_____	_____	16
Total Deductions	_____	_____	17
<u>TAXABLE INCOME</u>	\$ _____	\$ _____	18
	_____	_____	19
<u>TAXES DUE</u>			20
Federal	\$ _____	\$ _____	21
State	_____	_____	22
TOTAL	\$ _____	\$ _____	23
	_____	_____	24
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OTHER SOURCES OF CASH
INSTRUCTIONS

Purpose: To record information pertaining to the client's sources of cash.

Procedure:

1. For sources of cash not previously discussed, record the provider and the amount. If there are several sources of the same type, they should be listed on a single form.
2. In the section for notes, provide additional details that might be useful in the analysis. If appropriate, obtain copies of supporting documents.
3. Transfer the figures to the Cash Flow Summary Form.

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OTHER SOURCES OF CASH

Form # 0601

Name _____ SS# _____ Page ___ of ___

Provider	December 31		
	19X1	19X2	
_____	\$ _____	\$ _____	1
_____	_____	_____	2
_____	_____	_____	3
_____	_____	_____	4
_____	_____	_____	5
_____	_____	_____	6
Total	_____	_____	7

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OTHER USES OF CASH
INSTRUCTIONS

Purpose: To record information about the client's uses of cash.

Procedure:

1. For uses of funds not previously discussed, record the payee. If there are several uses of the same type, they would be listed on a single form.
2. In the notes section, provide additional details that might be useful in the analysis. If appropriate, obtain copies of supporting documents.
3. Transfer the figures to the Cash Flow Summary Form.

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Name _____ SS# _____ Page ___ of ___

Payee	December 31		
	19X1	19X2	
_____	\$ _____	\$ _____	1
_____	_____	_____	2
_____	_____	_____	3
_____	_____	_____	4
_____	_____	_____	5
_____	_____	_____	6
Total	_____	_____	7

Notes:

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CASH FLOW SUMMARY
INSTRUCTIONS

Purpose: To summarize the client's cash flow information.

Procedure:

1. Record the cash balances from the Net Worth Analysis.
2. Record the information from the Income and Living Expense Form in the appropriate places.
3. Record the information from the Source and Use Forms.
4. Total the various columns to determine that the form is in balance.
5. Record the totals on the Financial Profile Form.
6. File the forms and supporting documents in the financial planning file.

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CASH FLOW SUMMARY

Form # 0603

Name _____

SS# _____

Page ___ of ___

	December 31		
	19X1	19X2	
<u>CASH - BEGINNING OF YEAR</u>	\$ _____	\$ _____	1
<u>SOURCES OF CASH</u>			2
Income	_____	_____	3
_____	_____	_____	4
_____	_____	_____	5
_____	_____	_____	6
_____	_____	_____	7
_____	_____	_____	8
Total	\$ _____	\$ _____	9
<u>USES OF CASH</u>			10
Living Expenses	\$ _____	\$ _____	11
_____	_____	_____	12
_____	_____	_____	13
_____	_____	_____	14
_____	_____	_____	15
_____	_____	_____	16
Total	\$ _____	\$ _____	17
NET INCREASE (DECREASE)	\$ _____	\$ _____	18
<u>CASH - END OF THE YEAR</u>	\$ _____	\$ _____	19
			20
			21
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RETIREMENT INCOME/EXPENSE
INSTRUCTIONS

Purpose: To record information on the client's income and expenses after retirement.

Procedure:

1. Review the income and expense items on the Income and Living Expense Forms. If an item will not significantly increase or decrease, record it on the Retirement Summary Form.
2. If an item will significantly change, prepare a Retirement Income Form for each. First indicate the category.
3. Record the amounts as on the Income and Living Expense Forms.
4. Enter the figures as projected to be after retirement. The projections are made as of the end of the current year and end of the next two years.
5. In the notes section explain the basis for the revised figures. Attach copies of supporting documents.
6. These figures may be adjusted when analyzed by the appropriate adviser.
7. Transfer the figures to the Retirement Summary Form.

Name _____ SS# _____ Page ___ of ___

Category: _____

	<u>Estimated for (date) as of</u>		
	<u>Current Year</u>		
	<u>12/31/X3</u>	<u>12/31/X4</u>	<u>12/31/X5</u>
Estimated at Retirement	\$ _____	\$ _____	\$ _____
	<u>19X3</u>	<u>19X4</u>	<u>19X5</u>
Per Income and Expense Summary	\$ _____	\$ _____	\$ _____

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RETIREMENT SUMMARY
INSTRUCTIONS

Purpose: To summarize the retirement information.

Procedure:

1. Record the income and expense information from the Income/
Expense Forms.
2. Total the amounts and compute the net excess income
(expense)
3. Review the reasonableness of the figures.
4. Transfer the figures to the Financial Profile Form.
5. File the forms and supporting documents in the financial
planning file.

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RETIREMENT SUMMARY

Form #0702

Name _____

SS# _____

Page ___ of ___

Estimated for ---- as of*

Current Year

12/31/X3

12/31/X4

12/31/X5

INCOME

\$

\$

\$

Total

LIVING EXPENSES

\$

\$

\$

Total

NET SURPLUS (DEFICIT)

\$

\$

\$

* Does not include an adjustment for inflation.

DISABILITY INCOME/EXPENSE
INSTRUCTIONS

Purpose: To record information pertaining to the client's income
and expenses after a disability.

Procedure:

1. Review the income and expense items on the Income and or
Living Expense Forms. If an item will not change signifi-
cantly, record it on the Disability Summary Form.
2. If it will change, prepare a Disability Income/Expense
Form. First indicate the category.
3. Record the figures from the Income and Expense Summary
Form.
4. Enter the figures as projected after disability. The pro-
jections are made as of the end of the current year and the
end of the next two years.
5. In the notes section explain the basis for the revised
figures.
6. These figures may be adjusted when they are analyzed by the
appropriate adviser.
7. Transfer the figures to the Disability Summary Form.

Page 86 skipped in the original document

DISABILITY SUMMARY
INSTRUCTIONS

Purpose: To summarize the disability information.

Procedure:

1. Record the income and expense information from the previous forms.
2. Total the figures and compute the net surplus or deficit.
3. Review the reasonableness of the figures.
4. Transfer the numbers to the Financial Profile Form.
5. File the forms and supporting documents in the financial planning file.

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Name _____

SS# _____

Page ___ of ___

Estimated after six months as of*

Current Year

12/31/X3

12/31/X4

12/31/X5

INCOME

Social Security Benefits

	\$	\$	\$
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

Total

_____	_____	_____	_____
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LIVING EXPENSES

	\$	\$	\$
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

Total

_____	_____	_____	_____
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Excess Income (Expense)

\$	_____	\$	_____	\$	_____
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* Does not include an adjustment for inflation.

ESTATE VALUATION
INSTRUCTIONS

Purpose: To determine and record the value of the client's
estate.

Procedure:

1. Determine the categories of items that need to be valued.
For example, there may be insurance policies, a buy/sell
agreement and the interest in a trust.
2. Prepare a separate form for each category.
3. Enter the benefit assuming the death occurred on December
31 of the current year and December 31 of the next two
years.
4. After the forms have been prepared for the husband, prepare
a second set assuming the wife dies first.
5. Obtain copies of the supporting documents for the financial
planning file.
6. Transfer the totals to the Estate Tax Analysis Form.

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Name _____ SS# _____ Page ___ of ___

Estimated at Death of (husband or wife) as of

Description	Current Year			
	12/31/X3	12/31/X4	12/31/X5	
	\$ _____	\$ _____	\$ _____	1
	_____	_____	_____	2
	_____	_____	_____	3
	_____	_____	_____	4
	_____	_____	_____	5
	_____	_____	_____	6
	_____	_____	_____	7
Total	_____	_____	_____	8

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ESTATE TAX ANALYSIS
INSTRUCTIONS

Purpose: To summarize the estate tax information.

Procedure:

1. Record the information from the Estate Valuation Forms.
2. Estimate the deductions.
3. Review the will and determine the amount of the estate to be transferred via the tax free pass through.
4. Compute the tax and the amount of the estate available for distribution.
5. Transfer the figures to the appropriate Estate Income/Expense Form.

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Name _____ SS# _____ Page ____ of ____

	Husband Predeceases		Wife Predeceases		
	19X3	19X4	19X3	19X4	
Insurance Benefits	\$ _____	\$ _____	\$ _____	\$ _____	1
_____	_____	_____	_____	_____	2
_____	_____	_____	_____	_____	3
Net Worth	_____	_____	_____	_____	4
Total	\$ _____	\$ _____	\$ _____	\$ _____	5

DEDUCTIONS

Funeral Expenses	\$ _____	_____	_____	_____	6
Administrative Expenses	_____	_____	_____	_____	7
_____	_____	_____	_____	_____	8
Total	\$ _____	\$ _____	\$ _____	\$ _____	9

<u>ADJUSTED GROSS ESTATE</u>	\$ _____	\$ _____	\$ _____	\$ _____	10
<u>ESTATE TAXES</u>	_____	_____	_____	_____	11
<u>AVAILABLE FOR DISTRIB.</u>	\$ _____	\$ _____	\$ _____	\$ _____	12

COMPUTATION OF ESTATE TAXES

Adjusted Gross Estate	\$ _____	\$ _____	\$ _____	\$ _____	13
Tax Free Pass Through	_____	_____	_____	_____	14
Taxable Estate	\$ _____	\$ _____	\$ _____	\$ _____	15
Gross Estate Tax	\$ _____	\$ _____	\$ _____	\$ _____	16
Less Credits	_____	_____	_____	_____	17
Estate Taxes	\$ _____	\$ _____	\$ _____	\$ _____	18

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ESTATE INCOME/EXPENSE
INSTRUCTIONS

Purpose: To record information on the client's income and expenses after the death of one or both of the parents.

Procedure:

1. Estimate the income generated by assets of the estate. For simplicity, assume that the assets that are capable of producing income will earn 10% a year.
2. Review the income and expense items on the Income and Living Expense Forms. If an item will not change significantly, record it on the Estate Summary Form.
3. If it will change, prepare a form. First indicate the category.
4. Record the figures as on the Income and Expense Summary Form.
5. Enter the figures as projected after death. The projections are made as of the current year and as of the end of the next two years.
6. In the notes section explain the basis for the revised figures.
7. These figures may be adjusted when they are analyzed by the appropriate adviser.
8. Transfer the figures to the Estate Summary Form.

Name _____ SS# _____ Page ___ of ___

Category: _____

Estimated at Death of (husband or wife) as of
Current Year

	<u>12/31/X3</u>	<u>12/31/X4</u>	<u>12/31/X5</u>
Estimated at Death	\$ _____	\$ _____	\$ _____

	<u>19X3</u>	<u>19X4</u>	<u>19X5</u>
Per Income and Expense Summary	\$ _____	\$ _____	\$ _____

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Purpose: To summarize the estate information.

Procedure:

1. Record the income and expense information from the Estate
Income/Expense Forms.
2. Total the amounts and compute the net surplus or deficit.
3. Review the amounts for reasonableness.
4. Transfer the numbers to the Financial Profile Form.
5. File the forms and supporting documents in the financial
planning file.

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Name _____

SS# _____

Page ___ of ___

Projected at Death of (husband or wife) as of

Current Year

12/31/X3

12/31/X4

12/31/X5

INCOME

\$

\$

\$

Total

LIVING EXPENSES

\$

\$

\$

Total

Excess Income (Expense)

\$

\$

\$

* Does not include an adjustment for inflation.

OVERALL FINANCIAL SUMMARY
INSTRUCTIONS

Purpose: To summarize the financial information from all forms.

Procedure:

1. Record the amounts from other forms in the appropriate positions on the summary form.
2. Review the amounts for reasonableness.
3. Discuss problem and opportunity areas with the client.
4. File the form in the financial planning file.

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Name _____ SS# _____ Page ___ of ___

	<u>December 31</u>		
	<u>19X1</u>	<u>19X2</u>	
<u>NET WORTH ANALYSIS</u>			1
Assets	\$ _____	\$ _____	2
Liabilities	_____	_____	3
Net Worth	\$ _____	\$ _____	4
 <u>INSURANCE ANALYSIS</u>			5
Home and Property	\$ _____	\$ _____	6
Personal/Professional Liability	\$ _____	\$ _____	7
Disability Insurance	\$ _____	_____	8
Life Insurance	\$ _____	_____	9
 <u>INCOME AND EXPENSE ANALYSIS</u>			10
Income	\$ _____	\$ _____	11
Living Expenses	_____	_____	12
Excess Income (Expense)	\$ _____	\$ _____	13
 <u>INCOME TAX ANALYSIS</u>			14
	\$ _____	\$ _____	15
 <u>CASH FLOW ANALYSIS</u>			16
Cash Received	\$ _____	\$ _____	17
Cash Expended	_____	_____	18
Excess Income (Expense)	\$ _____	\$ _____	19
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SUMMARY OF RECOMMENDATIONS
INSTRUCTIONS

Purpose: To summarize the recommendations.

Procedure:

1. Record a brief description of the recommendation.
2. Indicate the impact (whether positive or negative) it has on the different areas.
3. Obtain copies of the documents supporting the recommendations.
4. File the form and the supporting documents in the financial planning file.

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Name _____ SS# _____ Page ___ of ___

<u>Actions to Be Taken</u>	<u>-----Areas Impacted*-----</u>							
	<u>Net</u> <u>Wor</u>	<u>Inc</u> <u>Exp</u>	<u>Inc</u> <u>Tax</u>	<u>Cash</u> <u>Flow</u>	<u>Ret</u>	<u>Dis</u>	<u>Est</u>	
<u>During 19X3</u>								4
1. _____	-	-	-	-	-	-	-	5
2. _____	-	-	-	-	-	-	-	6
3. _____	-	-	-	-	-	-	-	7
4. _____	-	-	-	-	-	-	-	8
5. _____	-	-	-	-	-	-	-	9
6. _____	-	-	-	-	-	-	-	10
<u>During 19X4</u>								11
1. _____	-	-	-	-	-	-	-	12
2. _____	-	-	-	-	-	-	-	13
3. _____	-	-	-	-	-	-	-	14
4. _____	-	-	-	-	-	-	-	15
								16
<u>Post 19X5</u>								17
1. _____	-	-	-	-	-	-	-	18
2. _____	-	-	-	-	-	-	-	19

* Net Worth, Income and Expenses, Income Taxes, Cash Flow, Retirement, Disability and Estate.
 P - Positive Impact/ N - Negative Impact

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APPENDIX II

SAMPLE FINAL REPORT TO THE CLIENT

The following illustrative report is the output of a personal financial planning engagement conducted by accountant Sam Brown for his clients, John and Mary Smith.

John and Mary Smith are the owner-operators of their own separate businesses. They seek retirement security. The Smiths have three dependent children; John, Jr. (nineteen years old), Susan (seventeen years old), and Jane (twelve years old).

Refer to the "Personal Information and Family Objectives" section (page 125) and the "Personal Financial Planning Team Member" listing (page 127) for additional background information on the family and personal financial planning team members.

Note: This report illustrates only one of several report formats that may be used in a personal financial planning engagement. In preparing a final report to the client, the practitioner would select a report format appropriate for the specific engagement circumstances. The advice given in the report is intended only to be illustrative of the matters that may be covered. Every client situation will be different, and the recommendations from advisers may differ even in identical situations.

TABLE OF CONTENTS

	<u>Page</u>	
Illustrative Transmittal Letter	103	
Summary Analysis	106	1
Recommendations	114	2
Supporting Analyses		3
Personal Information and Family Objectives	125	4
Supporting Analyses	128	5
Net Worth Analysis	128	6
Risk Analysis	142	7
Income and Expense Analysis	145	8
Income Tax Analysis	149	9
Cash Flow Analysis	153	10
Retirement Analysis	157	11
Disability Analysis	160	12
Estate Analysis	163	13
		14
		15
		16
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		18
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ILLUSTRATIVE TRANSMITTAL LETTER

_____, 19__,

Mr. & Mrs. John Smith
One Main Street
Anytown, USA

Dear John and Mary:

We are pleased to provide you with your personal financial plan. The plan begins with a summary analysis of the eight aspects of your financial situation. In each case, the analysis summarizes the current situation, discusses objectives and identifies problems and opportunities.

The second section of the plan recommends actions to correct problems and to take advantage of opportunities. With each recommendation is a discussion of the problem or opportunity being addressed, a description of the proposed action and a brief discussion of the impact.

The nine supporting analyses provide detailed information pertaining to the different aspects of your financial situation. They include financial statements and related notes and a discussion of how the combined actions affect particular areas.

In preparing the plan, we consulted your attorney, banker, insurance agents, real estate broker, stockbroker, and trust officer. Their input has been most valuable in identifying problems and opportunities and recommending appropriate actions.

We have compiled the accompanying statements of your financial condition as of December 31, 19X1 and 19X2, and the related sta-

tements of changes in net worth for the years then ended, in accordance with standards established by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of the individuals whose financial statements are presented. We have not audited or reviewed the accompanying financial statements, and accordingly, do not express an opinion or any other form of assurance on them.

The accompanying projected statement of your financial condition, statement of changes in net worth, and summaries of significant assumptions as of December 31, 19X3, 19X4, and 19X5 and for the years then ending, present, to the best of your knowledge and belief, you expected financial condition, changes in net worth for the projection periods that would result from various transition, as disclosed in items (a) through (k) of the summary of significant assumptions and is not intended to represent an estimate of future financial results. Accordingly, the financial projection reflects your judgement, based on present circumstances, of the expected conditions and your expected courses of action if the income was achieved. However, even if the income was attained, some assumptions inevitably will not materialize and unanticipated events and circumstances may occur; therefore, the actual results achieved during the projection period will vary from the projection, and the variations may be material.

We have compiled the projection to accordance with applicable guidelines established by the American Institute of Certified Public Accountants. A compilation of a projection does not include evaluation of the support for the assumptions underlying the projection. Because a compilation of a projection is limited as described above, we do not express a conclusion or any other form of assurance on the accompanying statements or assumptions. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

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The projections in this report were prepared for personal financial purposes and should not be relied on for any other purpose.

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We have enjoyed working with you in preparing this plan and look forward to helping you implement and update it next year.

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Sincerely,

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Brown & Johns, Inc.

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Sam Brown

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SUMMARY ANALYSIS

The Smith family is in relatively good financial condition. As reflected in the Summary Financial Profile Statement, you have a net worth of over \$270,000 and your income exceeds your living expenses. You do have some serious problems regarding John's disability and estate situations, but these can be corrected without much difficulty. The real potential for correction lies in making more effective use of the resources you have available. For example, by improving the fringe benefits you receive from your respective companies, you will simultaneously correct some problems and reduce your taxable income.

The remainder of this section provides a summary analysis for each aspect of the family's financial situation. The analysis includes discussion of the current situation and family objectives and a description of the problems and opportunities.

Personal Information and Objectives

The businesses you operate continue to grow. Your three children are attending school and are dependent.

Your objectives are to ensure that the family maintains its standard of living in case of John's disability or death, that your children are able to reach their full potential and that you are able to retire in relative comfort.

Net Worth Analysis

You have increased your net worth by \$27,000 to \$277,000 during the past year. With \$10,000 in certificates, you have adequate

cash reserves and your liabilities are consistent with your net worth and income level.

Before you retire, you wish to increase your net worth to approximately \$750,000 and establish a \$250,000 trust fund for your children. To accomplish this objective, you need to diversify your mix of assets to improve your return on your investments.

You do not have any serious problems regarding your net worth, but you do have an opportunity to improve the performance of your assets over the next several years. For example, during the past several years your stocks have not performed as well as the overall market.

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SUMMARY FINANCIAL PROFILE STATEMENTS
 MR. AND MRS. JOHN SMITH
 AS OF DECEMBER 31, 19X1, 19X2, 19X3, 19X4 and 19X5
 AS OF JUNE 15, 19X3

	<u>19X1</u>	<u>19X2</u>	<u>19X3</u>	<u>19X4</u>	<u>19X5</u>	
	<u>Actual</u>	<u>Actual</u>	<u>Projected</u>	<u>Projected</u>	<u>Projected</u>	1
<u>NET WORTH ANALYSIS</u>						2
Assets	416,800	444,000	498,275	577,725	849,725	3
Liabilities	<u>166,800</u>	<u>167,000</u>	<u>182,400</u>	<u>183,600</u>	<u>378,100</u>	4
Net Worth	250,000	277,000	315,875	394,125	471,625	5
	=====	=====	=====	=====	=====	6
<u>INSURANCE RISK ANALYSIS</u>						7
House and Property	221,000	235,000	265,000	285,000	531,900	8
	=====	=====	=====	=====	=====	9
Liability	1,000,000	1,000,000	1,000,000	1,000,000	1,500,000	10
	=====	=====	=====	=====	=====	11
<u>INCOME AND EXPENSE ANALYSIS</u>						12
Income	86,000	95,000	104,500	110,500	120,700	13
Living Expense	<u>85,300</u>	<u>93,800</u>	<u>92,125</u>	<u>98,600</u>	<u>97,000</u>	14
Surplus (Deficit)	700	1,200	12,375	11,900	23,700	15
	=====	=====	=====	=====	=====	16
<u>INCOME TAX ANALYSIS</u>						17
	16,200	18,800	23,200	27,000	22,400	18
	=====	=====	=====	=====	=====	19
<u>CASH FLOW ANALYSIS</u>						20
Cash Received	86,000	95,000	114,500	160,500	359,200	21
Cash Expended	<u>90,300</u>	<u>99,300</u>	<u>104,225</u>	<u>122,400</u>	<u>395,700</u>	22
Surplus (Deficit)	(4,300)	(4,300)	10,275	38,100	(36,500)	23
<u>RETIREMENT ANALYSIS</u>						24
	Projected	As Of				25
	<u>12/31/X1</u>	<u>12/31/X2</u>				26
Income	40,000	44,000				27
Expenses	<u>45,000</u>	<u>50,000</u>				28
Excess Income	(5,000)	(6,000)				29
(Expense)	=====	=====				30
<u>DISABILITY ANALYSIS</u>						31
Income	55,000	75,500				32
Expenses	<u>85,500</u>	<u>85,500</u>				33
Excess Income	(30,500)	(10,000)				34
(Expense)						35
<u>ESTATE ANALYSIS</u>						36
Income	65,500	80,500				37
Expenses	<u>78,500</u>	<u>78,500</u>				38
Excess Income	(13,000)	(2,000)				39
(Expense)	=====	=====				40

Risk Analysis

Your objective is to ensure that all your assets are properly covered and that your net worth will not be seriously affected by a fire or other disaster.

You have the basic insurance package on your homes, personal property, and cars; a \$1 million umbrella liability; and a basic health insurance policy.

There are no significant problems. The property and casualty insurance should be reviewed to ensure that it has kept pace with inflation.

Income and Expense Analysis

Your objective is to increase income at an annual rate of 10% to 15% while holding the increase in expenses to the range of 4% to 6%. If you are able to achieve this objective, you will have an additional \$5,000 to \$10,000 to invest this year.

While your income for the year will increase by \$9,500 to \$104,500, your expenses will increase \$1,675 to \$92,125. This represents an improvement over last year and indicates that the family expenses are stabilizing and being replaced by corporate expenditures.

Providing for your children's college education poses the only potential problem.

Income Tax Analysis

You would like to reduce your taxes to the lowest possible level without significantly increasing the likelihood an IRS of being audited by the Internal Revenue Service.

Your income taxes will increase from \$18,800 to \$23,200 due to the \$9,000 increase in income. Other than a few business expenses, you currently have no special tax deductions.

Because you have taken a conservative approach with your taxes, you should not have any problems with the Internal Revenue Service. With proper tax planning, there is a potential for significantly reducing your income taxes.

Cash Flow Analysis

You would like to maintain your current cash position and invest available future cash in higher yielding assets.

Your cash flow is good. You bought a \$5,000 certificate and now have \$15,000 in certificates and \$4,000 in cash.

There are no serious problems regarding cash flow but it can be improved if living expenses are reduced and better yield is obtained on the family's assets.

Retirement Analysis

You would like to have additional retirement income so you can maintain your home in Anytown and and travel.

If you are willing to sell your home in Anytown and reduce your standard of living, you can live comfortably on the funds that you have provided for your retirement.

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The major opportunity lies in improving the pension plans of the two companies. More efficient investment of the family assets will also result in greater income during retirement.

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Disability Analysis

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Your objective is to maintain the family's current standard of living in the event of either of you are disabled.

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There is a potential for serious problems to arise if John were to become disabled. Assuming that living expenses cannot be reduced significantly in the short run, projected expenses exceed projected income in the first full year by approximately \$30,000.

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Your objective is to maintain the family's current standard of living in the event of either of you are disabled.

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The deficiency in disability income is a serious problem that should be immediately addressed. Since you both own your companies, there is an opportunity to solve the problem by establishing a salary continuation plan.

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Estate Analysis

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Your objective is to improve your estate so your family would be able to maintain its current standard of living in case of John's death.

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Because of John's life insurance, your family could continue to have a reasonable standard of living if John were to die and Mary was able to continue to work. If both of you were to die, your children would have a difficult time.

There are two significant problems in this area. First, John does not have enough insurance to provide the assets needed to maintain your family's current standard of living. Second, since there is no buy/sell agreement on the corporation, there is a possibility that it would not provide the assets anticipated.

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Summary

You have some problems that require immediate attention, but over
the next several years you should be able to significantly
improve your financial circumstances.

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RECOMMENDATIONS

Your family is in a good position to correct the problems that exist in your financial situation and to take advantage of several opportunities. Owning your businesses gives you a significant amount of flexibility in taking advantage of existing tax laws. You have also kept expenses in line with income and have no major debts that will tie up funds for an extended period of time. Assuming that the both of you stay in good health and your businesses continue to grow, you should be able to make significant improvements over the next few years.

The successful implementation of the recommendations discussed in this section requires an integrated approach that considers how each aspect of your financial situation will be affected. It also requires a multi-year approach that systematically builds on the preceding actions.

The chart on the following page lists the recommendations by year of implementation and indicates the areas that each affects. For example, it is recommended that the action to correct the disability problem be taken during 19X3. In regard to its impact, the disability action will also affect expenses and cash flow.

The remainder of this section is an analysis of each recommendation. The analysis includes a brief statement of the problem or opportunity being addressed, a description of the recommended corrective action and a short discussion of the areas affected

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by the action. The impact of the recommendations on each area is discussed in the supporting analyses.

RECOMMENDATIONS FOR 19X3

The emphasis of the actions planned for the remainder of 19X3 should be focused on solving problems of an immediate nature and laying the groundwork for correcting long-term problems and taking advantage of several opportunities that are likely to be available. The disability and the estate problems should be immediately corrected. Similarly, efforts should immediately begin to arrange a buy/sell agreement for the businesses. You should also explore ways to improve the stock portfolio and consider various tax shelters.

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Summary of Recommendations
June 15, 19X3

<u>Actions to Be Taken</u>	<u>-----Areas Affected*-----</u>							
	<u>Net</u> <u>Wor</u>	<u>Inc</u> <u>Exp</u>	<u>Inc</u> <u>Tax</u>	<u>Cash</u> <u>Flow</u>	<u>Ret</u>	<u>Dis</u>	<u>Est</u>	
<u>During 19X3</u>								
1. Improve Disability	-	N	-	N	-	P	-	
2. Increase Life Ins.	N	N	-	N	-	-	P	
3. Revise Wills	-	-	-	-	-	-	P	
4. Buy/Sell Agreements	-	-	-	-	-	P	P	
5. Improve Stock Portfolio	P	P	P	P	P	-	-	
6. Explore Tax Shelters	-	-	P	N	P	-	-	
<u>During 19X4</u>								
1. Improve Pension Plan	-	-	-	-	P	P	-	
2. Incorporate Partnership	-	-	P	P	-	-	-	
3. Other Fringe Benefits	-	P	P	P	-	-	-	
4. Children's Trust	N	N	P	N	-	-	P	
<u>Post 19X4</u>								
1. Corporate Bldg.	P	P	P	P	P	-	-	
2. Other Real Estate Invest.	P	P	P	P	P	-	-	

* Net Worth, Income and Expenses, Income Taxes, Cash Flow, Retirement, Disability and Estate.
P - Positive Impact/ N - Negative Impact

Improve Disability Coverage

Your immediate attention should focus on improving your disability situation. If John were to become permanently disabled, his current disability benefits would be approximately \$30,000 less than the family's projected expenses. While the problem is not as serious with Mary, the family would still be under a financial strain if she became disabled.

With his after tax income of approximately \$55,000, John is able to obtain up to \$41,000 in disability coverage (75% of the \$55,000) and Mary is able to obtain approximately \$12,000.

Assuming a ninety day waiting period and coverage up to the age of 65, the cost would be approximately \$2,200 per year. If the waiting period is extended to six months, the cost is reduced to about \$750. It is recommended you move immediately to obtain this coverage for the both of you. On a longer term basis, you should explore the possibility of your companies providing this coverage. This point is discussed further under the recommendations on fringe benefits.

In addition to affecting your disability situation, this action will increase living expenses and reduce cash flow. Assuming something can be worked out with the companies, this negative impact will be short term.

Purchase Additional Life Insurance

If John were to die, the estate as currently structured would not provide enough income to maintain the family at its current stan-

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dard of living. If the family is not able to sell or operate John's business, the situation becomes worse.

To solve the immediate problem, it is recommended that John obtain additional term insurance of \$150,000 until such time that more permanent arrangements can be made. The cost will be approximately \$500 per year.

This action will also increase living expenses and reduce flow.

Revise Wills to Take Advantage of New Tax Law

Under the most current provisions of your wills, you will pay estate taxes of almost \$200,000 for your combined estates, and over \$55,000 will have to be paid upon John's death.

Your wills should be modified to include the unlimited marital deduction, and John should consider establishing an estate tax credit trust. These would permit all of John's assets to be transferred tax free. In addition, John needs to transfer sufficient assets to Mary to ensure full utilization of the unified credit benefit. This transfer credit would amount to \$49,000 for the current year and would increase over the next four years as the unified credit amount increases.

To decrease or eliminate the taxes to be paid by Mary's estate you would establish an estate tax credit trust from John's estate with Mary as the income beneficiary and transfer to it the amount that would be offset by the estate tax credit. Such activities should be coordinated with efforts to establish a trust for your children.

The use of the marital deduction will delay the payment of the tax if John dies first and will reduce the taxes if Mary has time to systematically distribute her assets before she dies.

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Set Up Buy/Sell Agreements for Businesses

You are both involved in closely held companies that will be difficult to sell if you were to die or become disabled.

It is recommended that John enter into a buy/sell agreement with his employees and that Mary enter into an agreement with her partner. The agreement for John would be funded with insurance purchased on his life by his employees. Mary and her partner should purchase insurance on each other.

If properly structured, the only impact the action will have on your family's financial situation will be to improve the estate situation. By providing for an orderly transfer of ownership at the time of death, it reduces controversy concerning the operation of the business as well as related expenses.

Improve Stock Portfolio

Several of the stocks you own have not performed well over the past few years. An analysis by Tom Sampson of Sampson and Johnson indicates that some of the stocks should be sold and the funds invested elsewhere.

Implementation of this recommendation will have a positive effect on both net worth and cash flow. The sale will generate addi-

tional funds for investment in more productive assets, and net worth should be increased over time.

Increase Property and Casualty Insurance

The value and replacement cost of both homes have increased significantly over the past few years and the property insurance has not kept pace.

You should increase the insurance on your homes by approximately \$50,000. The cost will be approximately \$100 per year.

This recommendation will not significantly affect any of the other areas.

Explore Possible Tax Shelters and Tax Advantaged Investments

You paid \$16,200 in income taxes in 19X1 and \$18,800 in 19X2. While you are not in the 50% bracket, there is a strong possibility that your tax liability could be reduced with a properly structured tax shelter.

Begin exploring various methods for sheltering your income. Some longer term approaches are discussed in the following sections.

In the short term, you should start an IRA account by putting aside \$4,000, and you should consider investing \$5,000 to \$10,000 in tax shelters that will provide at least an immediate one-to-one write-off and that have the potential for enhancing your net worth in the long run. An alternative is to invest in municipal bonds or electric utility re-investment programs.

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Since you are in a 36% bracket, the net cost of a \$5,000 investment will be only \$3,200. If funds invested in other assets are used, the transaction will not adversely affect cash flow. The impact of the IRA contribution will be small since funds normally used for investments and savings could be used for this purpose. Since the contributions are deductible and the income generated will not be taxable, income taxes will be reduced.

RECOMMENDATIONS FOR 19X3

If 19X3 it is suggested that you begin to develop longer term solutions to the problems and take advantage of some of the opportunities that are available, including improving John's pension plan, incorporating Mary's company, improving the fringe benefits provided by your companies, making sound investments in real estate, and a trust for your children.

Improve Corporate Pension Plans

While you feel you can live on the funds you have currently provided for retirement, you would prefer to increase your retirement income. You would particularly like to generate enough income to be able to maintain your home in Anytown as well as your vacation home.

Your company plans should be reviewed to determine if there are ways to provide additional retirement income for your family.

The improvement in the corporate pension plan will not directly affect your family's personal financial situation.

Incorporate Good-Food Catering Service

The business in which Mary is involved is currently a partnership. While this arrangement was adequate when the business was small, Mary is currently unable to take full advantage of possible fringe benefits.

It is recommended that Mary explore with her partner the possibility of incorporating and operating as a Subchapter S corporation.

Incorporating would permit some of her current expenses to be paid by the corporation with pre-tax dollars as discussed in the next recommendation.

Improve Fringe Benefits Obtained from Businesses

You are not taking full advantage of the fringe benefits that are available through your respective companies. The after tax saving to them can be significant. For example, your business transportation expense for 19x1 was over \$4,000.

It is recommended that both your companies provide you with cars. Assuming the cars can be leased at \$4,000, you will have to recognize a portion as income and can reduce your transportation expense by the full amount. The net saving would be approximately \$3,600.

These actions will improve cash flow, reduce income and expenses and thereby reduce income taxes.

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Establish a Trust Fund for the Children

One of your objectives is to provide a trust fund of approximately \$250,000 for your children. You do not currently have a mechanism for creating the trust.

It is recommended that you meet with your lawyer and establish a trust fund for your three children. Initially, \$9,000 in cash should be transferred to the trust and then approximately \$9,000 in cash should be invested in it each year. You may manage the trust yourself or seek the assistance of a professional.

The transfer of funds will reduce your net worth but will increase the net worth of your family. The income from the funds will be taxed at a lower rate in the trust and does not have to be distributed until the children reach the age of twenty-one. There is also a possibility that only a portion of the funds will have to be distributed then.

RECOMMENDATIONS FOR POST 19X4

If the recommendations in the preceding sections are carried out and the businesses continue to grow, there should be funds available to make significant improvements in future years. You should explore purchasing a building and leasing it to John's company. As net income continues to increase, other types of tax shelters should be explored. The cash generated by these shelters could be used to invest in other items that will generate income during your retirement years.

Corporate Building

John's company is currently leasing space in a large office building at an annual cost of \$40,000. You are not obtaining any of the tax benefits associated with owning a building.

If you obtain land and build a building for total cost of \$250,000, you could purchase your own building with a small investment. The lease payments of \$40,000 would be used to pay off the loan and you would have a tax write-off of approximately \$50,000 to \$60,000 in depreciation and interest for the first several years.

The impact on cash flow would be positive since rent from the corporation should be adequate to cover the debt service and the excess of depreciation and interest over income can be used to reduce income taxes. Under current law, accelerated depreciation on the building could shelter other income. Before deciding to use accelerated depreciation, a review should be made of possible tax impacts if the building is sold outright or as a part of the buy/sell agreement.

Other Real Estate Investments

If you continue to be successful in your businesses, you will need additional tax shelters in the years ahead.

In the early years, real estate investments usually provide positive cash flow because the income tax saving from the depreciation is greater than the mortgage amortization. Historically, real estate investments have performed well against inflation.

SUPPORTING ANALYSES

PERSONAL INFORMATION AND FAMILY OBJECTIVES

John and Mary Smith have three children - John Jr., Susan, and Jane. Detailed information on each family member is provided in the paragraphs below.

Following the family member information is a list the of the names, telephone numbers, and addresses of the various professional advisers involved in the management of the Smith's finances.

John, Sr. - 42 years old 253-68-7056

John is currently president of the Public Retail Company, Inc. of Anytown. John is active in community affairs and is a leader in his church.

John intends to work with his company another 13 years until he is 55 years old. At that time he wants to turn it over to John, Jr. or sell it to a larger corporation. He wants to devote more time to community and religious activities and explore the possibility of teaching at the college level.

Mary - 42 years old 261-57-4061

Mary is co-owner of the Good-Food Catering Service. The business was started in 1979. Mary is active in civic and church activities. Mary received her BA from Campus University.

Mary plans to continue her work for the immediate future. She currently devotes about half of her time to work and the other half to community and religious activities.

John, Jr. - 19 years old 282-47-6060

John, Jr. is in his sophomore year in college. During the summer, he works at his father's company earning approximately \$4,000.

He currently plans to attend law school after graduation. He is also considering the possibility of going to work for his father's company.

Susan - 17 years old 286-43-5051

Susan is a junior in high school. The major medical expenses associated with her accident are over, but she does have therapy sessions once a week.

Susan plans to attend college.

Jane - 12 years old 289-62-0476

Jane is in the sixth grade and in good health.

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PERSONAL INFORMATION AND FAMILY OBJECTIVES

Personal Financial Planning Team Members

Accountant

Sam Brown
Brown & Johns, Inc.
Anytown, USA

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Attorney

Steve Bennett
Bennett and Jones
Anytown, USA

Banker

Carl Andrews
National Bank of Midtown
Midtown, USA

Executor

Sam Jones
Public and Jones
Center City, USA

Insurance Agent - Life

Bill White
United Policies
Anytown, USA

Insurance Agent - Property & Casualty

Bob Wilson
Jones Insurance Company
Fairview, USA

Stockbroker

Tom Sampson
Sampson and Johnson
Anytown, USA

Trust Officer

Randy Hector
National Bank of Midtown
Midtown, USA

SUPPORTING ANALYSES

NET WORTH ANALYSIS

As reflected in the Net Worth Statement your family's net worth is projected to increase \$39,000 during 19X2 from \$277,000 to \$316,000. The notes included with the statement explain the significant changes and the basis for valuing the various items.

You have two basic objectives regarding your net worth. Before you retire, you would like to increase your personal net worth to \$750,000 and establish a \$250,000 trust fund for your children.

You feel if you have a net worth of \$750,000 when you retire, you will be able to live a comfortable life and will not be a financial drain on any of your children.

The purpose of the trust is to provide the children with some financial flexibility while they are developing their careers, particularly for Susan because of her handicap.

Several of the recommended actions will affect your family's net worth. By purchasing additional life insurance for John, you are protecting your family in case he does not live long enough to build the net worth that you feel your family needs. Your cash flow situation prevents you from providing the full funding of your objectives. With the \$400,000 you have in force, the additional \$150,000 will bring you closer to your objectives.

Although stocks and bonds represent a relatively small investment at this time, they will eventually be a significant component of

your family's net worth. Selling the stocks that are not currently performing well would be the first step in taking a more aggressive approach in managing this area.

Establishing the trust creates a transfer of assets within the family.

Investing in the corporate building and other real estate ventures will likely to increase the value of your money at a rate as fast if not faster than inflation. In addition, the income from these investment shelters can be used to further increase net worth.

In summary, the recommended actions will help your family structure your assets in a manner consistent with your objective and will help achieve your objectives sooner.

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JOHN AND MARY SMITH
STATEMENTS OF NET WORTH
DECEMBER 31, 19X1 and 19X2

PROJECTED STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 19X3, 19X4, and 19X5
AS OF JUNE 15, 19X3

	December 31,				
	19X1 <u>Actual</u>	19X2 <u>Actual</u>	19X3 <u>Projected</u>	19X4 <u>Projected</u>	19X5 <u>Projected</u>
SETS:					
Cash	\$ 8,500	\$ 9,000	\$ 3,965	\$ 47,625	\$ 4,825
Certificates of deposit	15,000	10,000	15,000	15,000	10,000
Investments					
Marketable securities	11,000	11,000	11,000	15,000	15,000
Discovery Oil, Ltd.	-	-	-	10,000	10,000
Public Cattle Farm	30,000	30,000	30,000	-	-
Public Retail Company, Inc.	54,000	60,000	66,000	72,600	80,000
Good-Food Catering Service	20,000	24,000	30,000	37,500	47,000
Invested interest in Public Retail Company, Inc. Profit Sharing Plan	6,250	9,750	17,750	30,000	40,000
Individual retirement accounts	-	4,000	8,000	13,000	18,500
Cash value life insurance	1,000	1,250	1,560	2,000	2,500
Commercial rental property	-	-	-	-	265,000
Residence - Anytown	151,000	160,000	179,600	190,000	201,500
Residence - Vacation Home	85,000	90,000	95,400	101,000	107,000
Personal property	<u>35,000</u>	<u>35,000</u>	<u>40,000</u>	<u>44,000</u>	<u>48,400</u>
	\$416,800	\$444,000	\$498,275	\$577,725	\$849,725
	=====	=====	=====	=====	=====
LIABILITIES:					
Income taxes	\$ 500	\$ 1,000	\$ 2,500	\$ 6,000	\$ 1,000
Note payable Bank	4,000	3,000	2,000	1,000	-
Mortgages payable - residence	82,500	79,200	85,500	80,900	75,900
Mortgage payable - vacation home	62,500	61,000	59,900	58,200	56,500
Mortgage payable - commercial rent	-	-	-	-	238,500
Accounts payable	<u>2,000</u>	<u>1,800</u>	<u>3,000</u>	<u>3,000</u>	<u>3,000</u>
	151,500	146,000	152,900	149,100	374,900
Estimated income taxes on the difference between the estimated current value of assets and the estimated current amounts of liabilities and their tax bases	15,300	21,000	29,500	34,500	49,000
NET WORTH	<u>250,000</u>	<u>277,000</u>	<u>315,875</u>	<u>394,125</u>	<u>425,825</u>
	\$416,800	\$444,000	\$498,275	\$577,725	\$849,725
	=====	=====	=====	=====	=====

See Notes and Assumptions to Financial Statements
and Accountants' Compilation Report.

JOHN AND MARY SMITH
 Statements of Changes in Net Worth
 December 31, 19X1 and 19X2

Projected Statements of Changes in Net Worth
 December 31, 19X3, 19X4 and 19X5

	December 31,				
	19X1 Actual	19X2 Actual	19X3 Projected	19X4 Projected	19X5 Projected
Realized increases in net worth:					
Salary - Public Retail Co.	\$ 65,000	\$ 70,000	\$75,000	\$ 80,500	\$ 87,000
Salary - Good Food Catering	18,000	20,000	22,500	26,000	30,000
Interest income	1,500	1,000	1,500	2,500	1,000
Dividend income	500	500	1,000	1,500	1,500
Rental income, net	-	-	-	-	1,200
Gain on sale of Public Cattle Farm	-	-	-	25,000	-
	<u>86,000</u>	<u>95,000</u>	<u>104,500</u>	<u>135,500</u>	<u>120,700</u>
Realized decreases in net worth:					
Income taxes	\$ 16,200	\$ 18,800	\$ 23,200	\$ 27,000	\$ 22,400
Food and clothing	11,000	13,000	14,300	15,200	16,000
Medical expenses	4,400	4,000	3,000	3,200	3,400
Interest expense	18,000	17,500	17,800	17,200	16,500
Charity	3,000	5,000	5,200	5,500	5,800
Insurance	2,800	3,000	3,600	3,800	4,000
Transportation	6,300	7,000	2,400	2,500	2,600
Education	6,000	6,500	8,000	8,800	9,700
Other	15,800	17,000	12,425	13,000	14,000
Property taxes	1,800	2,000	2,200	2,400	2,600
Trust for children	-	-	9,000	10,000	11,000
	<u>85,300</u>	<u>93,000</u>	<u>101,125</u>	<u>108,600</u>	<u>108,000</u>
Total	<u>700</u>	<u>1,200</u>	<u>3,375</u>	<u>26,900</u>	<u>12,700</u>
Not realized increase in net worth					
Realized increased in net worth:					
Investments -					
Public Retail Company, Inc.	5,000	6,000	6,000	6,600	7,400
Discovery Oil, Ltd	-	-	-	5,000	10,000
Good For Catering Service	3,300	4,000	6,000	7,500	9,500
Profit sharing plan and IRS's		7,500	12,000	17,250	15,500
Residence	8,000	9,000	9,600	10,400	11,500
Vacation	4,000	5,000	5,400	5,600	6,000
Commercial rental	-	-	-	-	15,000
Other property	-	-	5,000	4,000	4,400
Unrealized increase in net worth forward	<u>20,000</u>	<u>31,500</u>	<u>44,000</u>	<u>56,350</u>	<u>79,300</u>

JOHN AND MARY SMITH
 Statements of Changes in Net Worth
 December 31, 19X1 and 19X2

Projected Statements of Changes in Net Worth
 December 31, 19X3, 19X4 and 19X5

	December 31,				
	19X1 <u>Actual</u>	19X2 <u>Actual</u>	19X3 <u>Projected</u>	19X4 <u>Projected</u>	19X5 <u>Projected</u>
realized increase in net worth	\$ 20,000	\$ 31,000	\$ 44,000	\$ 56,350	\$ 79,300
realized decreases in net worth:					
estimated income taxes on the differences between the estimated current values of assets and the estimated current amounts of liabilities and their tax bases	<u>\$ 5,000</u>	<u>\$ 5,700</u>	<u>\$ 8,500</u>	<u>\$ 5,000</u>	<u>\$ 14,500</u>
net unrealized increase in net worth	<u>15,000</u>	<u>25,800</u>	<u>35,500</u>	<u>51,350</u>	<u>64,800</u>
net increase in net worth	15,700	27,000	38,875	78,250	77,500
net worth at beginning of year	<u>234,300</u>	<u>250,000</u>	<u>277,000</u>	<u>315,875</u>	<u>394,125</u>
net worth at the end of year	\$250,000 =====	\$277,000 =====	\$315,875 =====	\$394,125 =====	\$471,625 =====

See Notes and Assumptions to Financial Statements
 and Accountants' Compilation Report

JOHN AND MARY SMITH
Notes to Financial Statements
December 31, 19X1 and 19X2

Summary of Significant Projection Assumptions
December 31, 19X3, 19X4 and 19X5

NOTE 1:

The accompanying financial statements include the assets and liabilities of John and Mary Smith. Unless otherwise indicated, assets are stated at their estimated current values as determined by John and Mary Smith, and liabilities at their estimated current amounts.

NOTE 2:

The estimated current values of marketable securities are stated at their quoted closing prices. Marketable securities consist of the following:

	December 31,			
	19X1		19X2	
	Number of Shares	Estimated Current Values	Number of Shares	Estimated Current Values
Stocks:				
Slow Growth, Inc.	300	\$ 3,000	300	\$ 3,100
United Citibanc	300	4,800	300	6,000
Fastrack Corp.	1,000	2,200	1,000	900
Telscan, Inc.	100	1,000	100	1,000
		\$ 11,000		\$ 11,000
		=====		=====

NOTE 3:

The estimated current value of Public Cattle Farm is based on the value assigned to it for estate tax purposes. John Smith inherited this property from his father. There currently is no net income realized from this investment.

JOHN AND MARY SMITH
Notes to Financial Statements
December 31, 19X1 and 19X2

Summary of Significant Projection Assumptions
December 31, 19X3, 19X4 and 19X5

NOTE 4, continued:

John Smith owns all of the outstanding stock of Public Retail Company, Inc. The estimated current value of the investment is based on book value. Condensed balance sheets of Public Retail Company, Inc. prepared in conformity with general accepted accounting principles is summarized as follows:

<u>Assets</u>	December 31,	
	19X1	19X2
Current assets	\$350,000	\$400,000
Plant, property and equipment - net	175,000	150,000
Other assets	25,000	50,000
	\$550,000	\$600,000
	=====	=====
<u>Liabilities and Equity</u>		
Current liabilities	\$330,000	\$320,000
Long-term liabilities	166,000	220,000
Equity	54,000	60,000
	\$550,000	\$600,000
	=====	=====

The sales and net income for 19X1 were \$1,000,000 and \$14,000 and for 19X2 were \$900,000 and \$6,000.

NOTE 5:

The estimated current value of Good Food Catering Service is based on book value of the partnership which is owned 50% by Mary Smith. Condensed balance sheets of Good Food Catering Service prepared in conformity with generally accepted accounting principles, is summarized below:

JOHN AND MARY SMITH
Notes to Financial Statements
December 31, 19X1 and 19X2

Summary of Significant Projection Assumptions
December 31, 19X3, 19X4 and 19X5

<u>Assets</u>	December 31,		1
	19X1	19X2	2
Current assets	\$ 50,000	\$ 60,000	3
Plant, property and equipment - net	60,000	80,000	4
Other assets	5,000	5,000	5
	\$115,000	\$145,000	6
	=====	=====	7
 <u>Liabilities and Equity</u>			
Current liabilities	\$ 40,000	\$ 45,000	8
Long-term liabilities	35,000	52,000	9
Equity	40,000	48,000	10
	\$115,000	\$145,000	11
	=====	=====	12

The sales and net income after partners' guaranteed salaries for 19X1 were \$350,000 and \$6,000 and for 19X2 were \$450,000 and \$8,000.

NOTE 6:

Life insurance on John and Mary Smith is summarized as follows:

	<u>John Smith</u>	<u>Mary Smith</u>	
Ordinary life	\$200,000	\$ 75,000	13
Term life	200,000	25,000	14
	\$400,000	\$100,000	15
	=====	=====	16

NOTE 7:

The estimated current values of the residence are based on comparable values as ascertained by John Smith.

JOHN AND MARY SMITH
Notes to Financial Statements
December 31, 19X1 and 19X2

Summary of Significant Projection Assumptions
December 31, 19X3, 19X4 and 19X5

NOTE 8:

Personal property consists of furnishings, art, jewelry and automobiles. The estimated current values are based on independent appraisals for art and jewelry; cost of furnishings and wholesale book value for automobiles.

NOTE 9:

Mortgages and notes payable are summarized as follows:

	December 31,	
	19X1	19X2
Note payable bank, unsecured.	\$ 4,000	\$ 3,000
12% mortgage payable, secured by residence; monthly payments are \$1,081, including interest.	82,500	79,200
12% mortgage payable, secured by vacation home; monthly payments are \$716, including interest	62,500	61,000
	\$149,000	\$143,200
	=====	=====

NOTE 10:

The estimated current amounts of liabilities at December 31, 19X1 and December 31, 19X2 equaled their tax bases. Estimated income taxes have been provided on the excess of the estimated current values of assets over their tax bases as if the estimated current values of the assets had been realized on the statement date, using applicable tax laws

JOHN AND MARY SMITH
Notes to Financial Statements
December 31, 19X1 and 19X2

Summary of Significant Projection Assumptions
December 31, 19X3, 19X4 and 19X5

NOTE 10, continued:

and regulations. The provision will probably differ from the amounts of income taxes that eventually might be paid because those amounts are determined by the timing and the method of disposal or realization and the tax laws and regulations in effect at the time of disposal or realization.

	December 31,	
	19X1	19X2
Investments	\$35,000	\$45,000
Vested interest in profit sharing plan and IRA accounts	6,250	13,750
Residence and vacation home	56,000	70,000
Other assets	15,000	15,000
	\$61,250	\$83,750
	=====	=====

Summary of Significant Projection Assumptions

This projected financial statements of condition and changes in net worth assumes that John and Mary Smith will change their securities, sell Public Cattle Farm, purchase a tax sheltered investment, construct a commercial rental building, incorporate Good-Food Catering Service, improve their retirement programs and set up a childrens trust. These assumptions also include a general increase in their income stream and a moderate increase or stabilization of their living

expenses. This projection reflects John and Mary Smith's judgement, based on present circumstances, of expected conditions and their expected courses of action. The presentation is designed to provide information for personal financial planning and cannot be considered a presentation of expected future results. Accordingly, this projection may not be useful for any other purposes. The assumptions disclosed herein are those that John and Mary Smtih believe are significant to the projection; however, they have not decided that all of the courses of action described herein will be taken. Even if all of the courses of action are taken, some assumptions inevitably will not materialize and unanticipated events and circumstances may occur subsequent to March 1, 19X3, the date of this projection. Therefore, the actual results achieved during the projection period will vary from the projection and the variations may be material.

a) Securities. During the next twelve months, securities owned will be modified and or increased to approximately \$15,000 and be of high yield quality yeilding approximately 10%.

b) Public Cattle Farm. Although this farm has been in the family for years, John and Mary Smith feel that it is not productive and should be sold. Based on comparable properties, it is expected that a net sales price of \$55,000 can be achieved during 19X4.

- c) Discovery Oil, Ltd. To offset increasing income taxes on increasing income, approximately \$10,000 is expected to be invested in a quality tax shelter investment, which will produce a minimum of 1/2 to 1 write-off per year. Funds for this investment could come from additional revenue and or sale of the cattle farm. 1
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- d) Commercial Rental Property. To further expand the investment base, provide additional tax sheltered investments and income, John and Mary Smith expect to construct facilities for the use of Public Retail Company, Inc. Funds for the equity required for this projected construction are expected to come from the sale of the cattle farm. It is expected to cost \$250,000 and require a \$195,000 mortgage. This building is expected to be ready for occupancy by January 19X5. 4
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- e) Good Food Catering Service. This investment has had a steady growth and provides a good income to Mary. To improve the fringe benefits and minimize taxes on this source of income, John and Mary Smith expect that together with the other 50% owner, this business will be incorporated. A retirement program and automotive benefits are expected to eventually result. 14
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- f) Retirement Programs. Public Retail Company has been contributing a minimal amount into its profit sharing plan for the benefit of John Smith. It is expected that 21
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this contribution will be at least 10% of his salary in 19X3 and future years. Contributions to individual retirement accounts are expected to continue.

g) Childrens's Trust. John and Mary Smith expect to create a trust for the benefit of their three children. A goal of \$250,000 has been considered. Annual contribution of approximately \$10,000 are anticipated. This transfer of assets will also serve to reduce John and Mary's income and estate taxes.

h) Realized Increases in Net Worth. It is expected that increases in income from salaries and investments will continue at the same rate as experience in 19X1 and 19X2 except for an anticipated gain on the sale of the cattle farm and net rental income expected to start in 19X5.

i) Realized Decreases in Net Worth. Expenses are expected to increase moderately and in some cases be reduced. Income taxes are calculated using current income tax rates applied on projected taxable income. Food and clothing, medical, charity, insurance and other expenses are expected to increase approximately 50%. Trust contributions, education and property taxes are expected to increase approximately 10%. Transportation expenses are expected to be reduced on the basis that the businesses owned by the Smiths will absorb a substantial portion of business related expenses.

j) Unrealized Increases in Net Worth. Appreciation in
estimated current values is expected to follow the 19X1
and 19X2 rates wherever applicable. The business inter-
est owned by the Smiths is expected to be stated at book
value (for simplicity of presentation). Retirement pro-
grams are expected to be stated at the estimated vested
interests anticipated.

k) Unrealized Decreases in Net Worth. Estimated income
taxes are calculated on the same basis as 19X1 and 19X2.

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RISK ANALYSIS

The property and casualty policy provides coverage for the homes, and personal property. You also have a \$1,000,000 personal umbrella liability policy.

You own three cars. All three are insured with comprehensive and collision for their cash value less an appropriate deductible amounts. The limits on the liability and uninsured motorist are outlined in the statement.

A basic health insurance policy is provided by John's corporation. Benefits should be increased during the projection period to reflect increases in costs.

Your objective is to ensure at a reasonable cost that your net worth is not reduced by accident or a liability suit.

The recommended action to increase the property and casualty insurance on your home will provide adequate coverage. The values reflected exclude the land portion of the total value. When projected commercial real estate is acquired in 19X5, additional coverage will be provided for the value of the property less land. In addition, the personal umbrella liability policy will be increased to \$1,500,000 as a result of the increased exposure relation to the property.

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RISK ANALYSIS
MR. AND MRS. JOHN SMITH
AS OF DECEMBER 31, 19X1, 19X2, 19X3, 19X4 and 19X5
JUNE 15, 19X3

	<u>19X1</u> <u>Actual</u>	<u>19X2</u> <u>Actual</u>	<u>19X3</u> <u>Projected</u>	<u>19X4</u> <u>Projected</u>	<u>19X5</u> <u>Projected</u>
Home and Property					
Insurance (1)					
Residence -					
Anytown	121,000	130,000	149,600	160,000	171,500
Residence -					
Vacation Home	65,000	70,000	75,400	81,000	87,000
Personal Property	35,000	35,000	40,000	44,000	48,400
Commercial Rental					
Property	-	-	-	-	225,000
	221,000	235,000	265,000	285,000	531,900
	=====	=====	=====	=====	=====
Liability (2)	1,000,000	1,000,000	1,000,000	1,000,000	1,500,000
Cars (on each of the three) (3)					
Comprehensive (CV)					
Collision (CV)					
Property Damage					
Liability (PO)	25,000	25,000	25,000	25,000	25,000
Bodily Damage					
Liability (PP	300,000	300,000	300,000	300,000	300,000
PO)	300,000	300,000	300,000	300,000	300,000
Uninsured Motorist					
Bodily Injury (PP	10,000	10,000	10,000	10,000	10,000
PO)	20,000	20,000	20,000	20,000	20,000
Property Damage (PO)	5,000	5,000	5,000	5,000	5,000
Health (4)					
\$300 Deductible					
Per day room and board	90	90	100	100	120
Maternity Benefit	1,000	1,000	1,250	1,250	1,500

Notes to Risk Analysis Statement

Note 1. Home and Property Insurance

Both homes are insured by the ABC Fire Insurance Company. The
19X2 annual premium is \$734 and the policy number is #123455.

Note 2. Liability Umbrella

The policy is issued by ABC Fire Insurance Company. The 19X2
annual premium is \$145 and the policy number is #3344334.

Note 3. Automobile

The policy is issued by RST Insurance Corporation. The 19X2
annual premium is 531 and the policy number is #128989.

Note 4. Provided by the Corporation

The family health insurance is provided by John's business.

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INCOME AND EXPENSE ANALYSIS

As reflected in the Income and Expense Statement, your family's income is projected to increase annually with offsets resulting from increases in living expenses. As a result, your family will have an annual surplus. Both companies continue to perform well and it appears that there will be another increase in income this year.

For the next several years, you would like to maintain your living expenses at approximately the same level while increasing your income. This will permit you to increase your net worth at a faster rate.

Improving the disability coverage and increasing the life insurance on John will be the most significant impact on the expenses. The total increase will be \$1,000 per year. Assuming that some of these expenses can be shifted to the companies, these increases will be short term.

By having your companies provide you with more fringe benefits, your personal expenses will be reduced. For example, shifting the cars will result in a reduction of approximately \$3,600. A portion of the disability and life insurance can also be shifted to the companies.

Income generated by the corporate building and other real estate investments will offset direct expenses, and the expenses will be used to reduce your income taxes.

In summary, the recommendations will result in some short term increases in expenses, but the potential for reducing long term living expenses is quite good.

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INCOME AND EXPENSE STATEMENT
 MR. AND MRS. JOHN SMITH
 FOR THE YEARS ENDED DECEMBER 31, 19X1 AND 19X2
 AND FOR THE YEARS ENDING DECEMBER 31, 19X3, 19X4 AND 19X5
 JUNE 15, 19X3

	<u>19X1</u> <u>Actual</u>	<u>19X2</u> <u>Actual</u>	<u>19X3</u> <u>Projected</u>	<u>19X4</u> <u>Projected</u>	<u>19X5</u> <u>Projected</u>
<u>Income</u>					
Salary - Public Retail Co. (1)	65,000	70,000	75,000	80,500	87,000
Salary - Good-Food Catering (1)	18,000	20,000	22,500	26,000	30,000
Interest	1,500	1,000	1,500	2,500	1,000
Dividends	500	500	1,000	1,500	1,500
Distribution from Partnerships	1,000	3,500	4,500	-	-
Rental Income Net	-	-	-	-	1,200
Total	<u>86,000</u>	<u>95,000</u>	<u>104,500</u>	<u>110,500</u>	<u>120,700</u>
<u>Living Expenses (2)</u>					
Income Taxes	16,200	18,000	23,200	27,000	22,400
Food and Clothing	11,000	13,000	14,300	15,200	16,000
Medical Expenses	4,400	4,000	3,000	3,200	3,400
Interest Expenses	18,000	17,500	17,800	17,200	16,500
Charity	3,000	5,000	5,200	5,500	5,800
Insurance	2,800	3,000	3,600	3,800	4,000
Transportation	6,300	7,000	2,400	2,500	2,600
Education	6,000	6,500	8,000	8,800	9,700
Other (3)	15,800	17,000	12,425	13,000	14,000
Property Taxes	<u>1,800</u>	<u>2,000</u>	<u>2,200</u>	<u>2,400</u>	<u>2,600</u>
Total	<u>85,300</u>	<u>93,800</u>	<u>92,125</u>	<u>98,600</u>	<u>97,000</u>
Surplus (Deficit)	700	1,200	12,375	11,900	23,700
	=====	=====	=====	=====	=====

Notes to the Income and Expense Statement

Note 1. Salaries

John has a base salary of \$50,000 per year. In addition, his company pays him a bonus based upon its net income for the year. The bonus has been \$15,000 and \$20,000 the past two years.

The partnership pays Mary a base salary. She and her partner divide the remaining profit.

Note 2. Living Expenses

The living expenses are estimated upon a review and analysis of your cancelled checks.

Note 3. Other

The "other" category decreased because you were able to specifically identify more expenses beginning in 19X3.

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INCOME TAX ANALYSIS

Your income taxes for 19X3 will increase by approximately \$4,400 over the preceding year. The increase was major considering the \$9,500 increase in income but was to some extent the result of an increase in expenses paid by the corporation as opposed to personal expenses paid by you. Subsequent years will reflect tax benefits resulting from other recommendations. The details of the tax analysis are presented in the Income Tax Statement and significant changes are explained in the accompanying notes.

In regard to taxes, your objective is to reduce taxes by using techniques that do not involve excessive risk.

With the implementation of the recommendations, you can reduce your income taxes without significantly increasing the risk in the other areas. By carefully selecting a tax shelter in 19X3 you should be able to reduce your taxes by several thousand dollars. The establishment of an IRA account will reduce taxes by approximately \$1,500. In addition, the income produced by the account will not be taxed until it is withdrawn.

By incorporating Mary's partnership, you will have greater flexibility in using pre-tax dollars for various types of expenses. You can shift expenses to your respective companies.

The investment in the corporate building and other types of real estate can significantly reduce taxes in the early years. If John does retire at age 55, your tax rate will be lower when the income from these properties begins to exceed the expenses.

In summary, your business interests and good financial condition put you in an excellent position to take advantage of a variety of opportunities to reduce your taxes.

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INCOME TAX STATEMENT
MR. AND MRS. JOHN SMITH
FOR THE YEARS ENDED DECEMBER 19X1 and 19X2
AND FOR THE YEARS ENDING DECEMBER 31, 19X3, 19X4 and 19X5

	<u>19X1</u>	<u>19X2</u>	<u>19X3</u>	<u>19X4</u>	<u>19X5</u>	
	<u>Actual</u>	<u>Actual</u>	<u>Projected</u>	<u>Projected</u>	<u>Projected</u>	1 2
<u>Gross Income</u>						3
Salary	83,000	90,000	97,500	106,500	117,000	4
Interest and dividends	2,000	1,500	2,500	4,000	2,500	5
Partnership income	1,000	3,500	4,500	-	-	6
Rental income - net (3)	-	-	-	-	(11,300)	7
Gain on sale of farm @ 40%	-	-	-	10,000	-	8
Tax shelter discovery oil				(18,000)	(8,000)	9
Total	<u>86,000</u>	<u>95,000</u>	<u>104,500</u>	<u>112,500</u>	<u>100,200</u>	10
<u>Business Expense (1)</u>						11
Travel	4,000	6,000	4,000	-	-	12
Entertainment	4,000	5,000	3,000	-	-	13
Total	<u>8,000</u>	<u>11,000</u>	<u>7,000</u>	<u>-</u>	<u>-</u>	14
Adjusted Gross Income	<u>78,000</u>	<u>84,000</u>	<u>97,500</u>	<u>112,500</u>	<u>100,200</u>	15
<u>Itemized Deductions</u>						16
Medical	4,400	4,000	3,000	3,200	3,400	17
Taxes	4,300	4,800	5,800	6,900	6,300	18
Interest	18,000	17,500	17,800	17,200	16,500	19
Contributions	3,000	5,000	5,200	5,500	5,800	20
Sub total	<u>29,700</u>	<u>31,300</u>	<u>31,800</u>	<u>32,800</u>	<u>32,000</u>	21
Exemption	<u>5,000</u>	<u>5,000</u>	<u>5,000</u>	<u>5,000</u>	<u>5,000</u>	22
Total Deductions	<u>34,700</u>	<u>36,300</u>	<u>36,800</u>	<u>37,800</u>	<u>37,000</u>	23
<u>Taxable Income</u>	43,300	47,700	60,700	74,700	63,200	24
	=====	=====	=====	=====	=====	25
<u>Taxes Due</u>						26
Federal	13,800	16,100	19,700	22,600	18,800	27
State	2,500	2,800	3,600	4,500	3,700	28
Less Credits (2)	100	100	100	100	100	29
Total	<u>16,200</u>	<u>18,800</u>	<u>23,200</u>	<u>27,000</u>	<u>22,400</u>	30
	=====	=====	=====	=====	=====	31

Notes to the Income Tax Statement

Note 1. Business Expenses

Both of you are currently using your personal cars for business
and are doing a significant amount of entertaining in your home.

Note 2. Credits

The credits are for political contributions.

Note 3. Depreciation

Rental income - net of \$1,200 was reduced by depreciation of
\$12,500.

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CASH FLOW ANALYSIS

As reflected in the Cash Flow Statement, the cash flow situation is projected to improve since it was not necessary to sell stock to maintain a positive balance. The home improvement loan will have an affect on subsequent years cash flow.

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You stated your wish to minimize borrowing money to meet cash flow needs. You would like to improve your cash flow to permit greater flexibility in making investments.

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No single recommendation will have a major affect on cash flow but collectively, the recommendations should permit an improvement in the next several years.

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The need to provide additional disability and insurance coverage will increase living expenses. Improving the stock portfolio should increase income, and using tax shelters will reduce expenses.

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Incorporating Mary's partnership and more advantageous corporate fringe benefits by both of you will improve cash flow because pre-tax dollars will be used to cover these expenses.

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Establishing a trust for the children will have a negative impact on the cash flow. However, if the income is used to offset expenses such as education, the overall impact will be positive because the income will be taxed at lower rates.

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Cash flow will be improved by the degree to which interest and depreciation expenses on the corporate building exceed the

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related income. For example, the projected \$10,000 excess in the first year will reduce taxes by approximately \$3,700.

In summary, there is the potential for improving cash flow if living expenses are kept in line and the various recommendations are implemented.

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CASH FLOW STATEMENT
 MR. AND MRS. JOHN SMITH
 FOR THE YEARS ENDED 19X1 and 19X2
 AND FOR THE YEARS ENDING 19X3, 19X4 AND 19X5

	<u>19X1</u> <u>Actual</u>	<u>19X2</u> <u>Actual</u>	<u>19X3</u> <u>Projected</u>	<u>19X4</u> <u>Projected</u>	<u>19X5</u> <u>Projected</u>
<u>Sources of Cash</u>					
Income	86,000	95,000	104,500	110,500	120,700
Sale of Farm	-	-	-	55,000	-
Mortgage Payable (1-2)	-	-	<u>10,000</u>	-	<u>238,500</u>
Total	<u>86,000</u>	<u>95,000</u>	<u>114,500</u>	<u>160,500</u>	<u>359,200</u>
<u>Uses of Cash</u>					
Living Expenses	85,300	93,800	92,125	98,600	97,000
Investment - Discovery Oil	-	-	-	10,000	10,000
Investment - commercial rental property (1)	-	-	-	-	265,000
Trusts for children	-	-	9,000	10,000	11,000
Debt reduction	<u>5,000</u>	<u>5,500</u>	<u>3,100</u>	<u>3,800</u>	<u>12,700</u>
Total	<u>90,300</u>	<u>99,300</u>	<u>104,225</u>	<u>122,400</u>	<u>395,700</u>
Net Increase (Decrease)	(4,300)	(4,300)	10,275	38,100	(36,500)

Notes to the Cash Flow Statement

Note 1. Mortgage Payable

During 19X3 the mortgage on the house is to be increased and will provide \$10,000.

Note 2. Commercial Rental Property

Property is to be acquired in 19X5 at a projected cost of \$26,500 with a down payment of \$265,000 and a mortgage of \$238,500.

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RETIREMENT ANALYSIS

If the current investments continue to produce at their present level, you should be able to retire to your vacation home in relative comfort. The Retirement Statement provides a projection of income and expenses assuming that existing conditions continue to prevail.

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The IRA will provide additional income for use during your retirement years. Improving your stock portfolio, should also increase your income.

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The most effective way of improving the retirement situation is by improving your company pension plans.

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Sound real estate investments will also provide additional income during this period.

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In summary, improving your company pension plans and structuring your net worth with income producing assets will help ensure that you have the necessary income when you retire.

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RETIREMENT STATEMENT
MR. AND MRS. JOHN SMITH
FOR THE YEARS ENDED DECEMBER 31, 19Y1 AND 19Y2
June 15, 19X3

	<u>Projected for 2005 as of*</u>		
	<u>12/31/Y1</u>	<u>12/31/Y2</u>	
<u>INCOME</u>			
Corporate Retirement (1)	\$ 18,000	\$ 20,000	
Interest (2)	7,000	8,000	
Dividends (2)	6,000	7,000	
Social Security (3)	<u>9,000</u>	<u>9,000</u>	
Total	\$ 40,000	\$ 44,000	
 <u>LIVING EXPENSES (4)</u>			
Food	\$ 6,000	\$ 6,000	
Housing	12,000	16,000	
Clothing	3,000	3,000	
Transportation	4,000	5,000	
Medical Expenses	3,000	3,000	
Insurance	1,000	1,000	
Charity	2,000	2,000	
Education	1,000	1,000	
Entertainment	4,000	4,000	
Taxes	6,000	6,000	
Other	<u>3,000</u>	<u>3,000</u>	
Total	\$ 45,000	\$ 50,000	
 <u>NET SURPLUS (DEFICIT)</u>	 <u>\$ (5,000)</u>	 <u>\$ (6,000)</u>	

* Does not include an adjustment for inflation.

Notes to the Retirement Statement

Note 1. Pension

The projected payment is based on an analysis of the pension plan provided John by his company.

Note 2. Interest and Dividends

The increase is based on the assumption that your net worth will continue to rise.

Note 3. Social Security

The projected payment is based on an analysis of the existing law.

Note 4. Living Expenses

The reductions in the living expenses are based on a subjective analysis of each area.

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DISABILITY ANALYSIS

If John becomes permanently disabled, the family will have to significantly reduce its current standard of living. If the disability involves significant medical expenses, the problem worsens. The figures upon which these statements are based are presented in the Disability Statement.

The most immediate way to deal with the problem is for both of you to obtain additional disability insurance. The action will solve the problem in the short term. The buy/sell agreement should also include a disability provision.

In the longer term, you can invest an increasing portion of your net worth in income producing assets that are not dependent on your personal involvement.

In summary, you have a potentially serious problem that can be corrected both in the short and the long term.

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DISABILITY STATEMENT
 MR. AND MRS. JOHN SMITH
 FOR THE YEARS ENDED DECEMBER 31, 19Y1 AND 19Y2
June 15, 19Y2

	<u>Projected for 2005 as of*</u>		
	<u>12/31/Y1</u>	<u>12/31/Y2</u>	
<u>INCOME</u>			
Salary - Good-Food Catering (1) \$	22,500	\$ 22,500	1
Interest	2,500	2,500	2
Dividends (2)	1,500	1,500	3
Social Security (2)	9,000	9,000	4
Disability Insurance (3)	<u>20,000</u>	<u>40,000</u>	5
Total	55,500	75,500	6
<u>LIVING EXPENSES (4)</u>			
Food	7,500	7,500	7
Housing	19,000	19,000	8
Clothing	7,000	7,000	9
Transportation	8,000	8,000	10
Medical Expenses	3,000	3,000	11
Insurance	3,000	3,000	12
Charity	6,000	6,000	13
Education	8,000	8,000	14
Entertainment	8,000	8,000	15
Taxes	9,000	9,000	16
Other	<u>7,000</u>	<u>7,000</u>	17
Total	<u>85,500</u>	<u>85,500</u>	18
<u>NET SURPLUS (DEFICIT)</u>	<u>\$ 30,000</u>	<u>\$ 10,000</u>	19

* Projected annual income and expenses assuming that conditions remain as they existed and are projected to exist on the specified date.

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Notes to the Disability Statement

Note 1. Salary

Though John owns the company, the company is not profitable enough to pay his salary for an extended period of time if he were to become disabled.

Note 2. Social Security

The projected payment is based on an analysis of the existing law.

Note 3. Disability Insurance

The projected payment is based on an analysis of the disability policy provided John by his company.

Note 4. Living Expenses

The projected living expenses are based upon a subjective analysis in each area. There were no significant changes in the projected expenses during 19Y1 or 19Y2.

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ESTATE ANALYSIS

Because of the life insurance you have, your family can continue at a reasonable standard of living if John were to die. As the accompanying projections indicate, the children would have a difficult time if both parents were to die. As reflected in the Estate Tax Statement, there are some possibilities for reducing the estate tax.

John wishes to ensure that your family can maintain its standard of living if he should suddenly die.

The increase in life insurance will help solve the immediate problem of providing additional funds for the family at John's death.

Assuming that John dies first, the revision of the will to include the unlimited marital deduction and a credit exemption trust will eliminate the taxes paid at the time of his death. If the estate tax credit trust is established, with Mary as income beneficiary, the estate will not be taxed on that portion of John's estate when she dies. By making these two changes, overall estate taxes will be reduced by approximately \$63,000.

The buy/sell agreements will ensure that your family receives an equitable price for the two companies.

Establishing the trust for the children will help in that it is not a part of either of your estates.

PROJECTED INCOME AND EXPENSES AFTER DEATH OF HUSBAND
 MR. AND MRS. JOHN SMITH
 FOR THE YEARS ENDED DECEMBER 31, 19Y1 and 19Y2*
JUNE 15, 19Y2

	<u>Projected at Death of Husband</u>		
	<u>12/31/Y1</u>	<u>12/31/Y2</u>	
<u>INCOME</u>			
Estate Income (1)	30,000	45,000	
Salary - Good-Food Catering	22,500	22,500	
Interest	2,500	2,500	
Dividends	1,500	1,500	
Social Security (2)	<u>9,000</u>	<u>9,000</u>	
Total	65,500	80,500	
<u>LIVING EXPENSES (4)</u>			
Food	7,500	7,500	
Housing	19,000	19,000	
Clothing	7,000	7,000	
Transportation	5,000	5,000	
Medical	3,000	3,000	
Insurance	2,000	2,000	
Charity	4,000	4,000	
Education	8,000	8,000	
Entertainment	4,000	4,000	
Taxes	15,000	15,000	
Other	<u>4,000</u>	<u>4,000</u>	
Total	<u>78,500</u>	<u>78,500</u>	
<u>NET SURPLUS (DEFICIT)</u>	<u>\$ (13,000)</u>	<u>\$ 2,000</u>	

* Projected annual income and expenses assuming that conditions remain as they existed and are projected to exist on the specified date.

Notes to the Project Income and Expense Statement

Note 1. Estate Income

The 19Y1 figure assumes that approximately \$300,000 in income producing assets will earn about 10% per year. The 19Y2 figures assume an additional \$150,000 of life insurance.

Note 2. Social Security

Based on an analysis of the existing law.

Note 3. Living Expenses

The reductions in living expenses are based on a subjective analysis of each area. There were no significant changes in the project expenses during 19Y1 or 19Y2.

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Estate Analysis

ESTATE TAX STATEMENT*
MR. AND MRS. JOHN SMITH
DECEMBER 31, 19Y1 AND 19Y2

Name _____	SS# _____		Page ___ of ___		1
	<u>Husband Predeceases</u>		<u>Wife Predeceases</u>		2
	<u>Husband</u>	<u>Wife</u>	<u>Wife</u>	<u>Husband</u>	3
<u>GROSS ESTATE</u>					
Life Insurance (1)	\$400,000	\$100,000	\$100,000	\$400,000	4
Net Worth - Estimate	300,000	150,000	150,000	300,000	5
Amount Passed Between	-	342,500	-	59,375	6
Total	<u>700,000</u>	<u>592,500</u>	<u>250,000</u>	<u>759,375</u>	7
<u>DEDUCTIONS</u>					
Funeral Expenses	5,000	5,000	5,000	5,000	8
Administrative Expenses	10,000	10,000	10,000	10,000	9
Total	<u>15,000</u>	<u>15,000</u>	<u>15,000</u>	<u>15,000</u>	10
<u>ADJUSTED GROSS ESTATE</u>	685,000	577,000	235,000	744,375	11
<u>ESTATE TAXES</u>	<u>55,250</u>	<u>137,475</u>	<u>-</u>	<u>199,218</u>	12
<u>AVAILABLE FOR DISTRIBUTION</u>	<u>\$629,750</u>	<u>\$440,025</u>	<u>\$235,000</u>	<u>\$545,157</u>	13
<u>COMPUTATION OF ESTATE TAXES**</u>					
Adjusted Gross Estate	\$685,000	\$577,000	\$235,000	\$744,375	14
Tax Free Pass Through	<u>342,500</u>	<u>-</u>	<u>59,375</u>	<u>-</u>	15
Taxable Estate	342,500	577,000	175,625	744,375	16
Gross Estate Tax	102,250	184,475	47,000	246,18	17
Credits	<u>47,000</u>	<u>47,000</u>	<u>47,000</u>	<u>47,000</u>	18
<u>ESTATE TAXES</u>	<u>\$ 55,250</u>	<u>\$137,475</u>	<u>\$ -</u>	<u>\$199,218</u>	19

* The notes to financial statements are an integral part of these statements.

**Based on 1984 tax tables.

Notes to the Estate Tax Statement

Note 1. Life Insurance

You currently have life insurance totaling \$500,000. The policies
may be summarized as follows:

John:	ABC Ins. Co.	Ordinary life	\$100,000
	BCD Ins. Co.	Ordinary life	100,000
	XYZ Ins. Co.	Term	<u>200,000</u>
	Subtotal		<u>400,000</u>
Mary:	BCD Ins. Co.	Ordinary life	75,000
	BCD Ins. Co.	Term	<u>25,000</u>
	Subtotal		<u>100,000</u>
	Total		\$500,000

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Appendix B

Comments - Re: MAS Conference

Altered Annually.

Held in Chicago area.

We will not attend in 1978 because of the move to New York. We have attended all meetings in Chicago but because of added expense and hassle of New York vs. a Chicago Airport Hotel, we will be absent in 1978.

General Comments

The tax season is not the best time of the year to be performing surveys.

Set up program for attracting MAS professionals to submit input on MAS activities in the field. The "Management Adviser" emulated this to some extent. Examples of practical use of theory needed in this field. Maybe incentives to submit manuscripts would attract input for case studies and news letters.

It is difficult in many cases to differentiate between informal advice and structured engagements. Maybe it would be better to ask which subject area engagements are performed by professionals who are full time in a specialized MAS department and which by professionals who are generalists. Also, it seems there should be only one "never" column.

Structure committee for small firm problems.

Less formal written (legal) guidelines.

More how to do it--hands on conferences--1 topic--don't cover entire gamut have 2 or 3 conferences regionalized.

Provide practical instruction, courses, and leadership as soon as possible. This questionnaire is a good starting point. MAS offers more potential growth for CPA firms than either tax or auditing. We need to rally together and provide meaningful quality services in MAS.

Area or regional conferences.

Since most of the MAS personnel in the CPA environment are not CPAs, why are they excluded from Executive Committees? There needs to be an exception to allow non-CPAs to be members of the AICPA.

So much informal business advice is given by audit people, I wonder if any one person in the firm really could know the answers.

Some of the questions should be in the form of lay-terms.

Need for more reference material from AICPA.

Need AICPA developed courses and for AICPA review and evaluation of non-AICPA MAS courses (i.e., American Management Association (AMA), NAA, etc.)

Continue to assure aid to small and local firms. Most MAS at AICPA today seems to be weighted towards Big 8.

Suggestion--provide more interaction with the various state societies to help give them more direction in their activities.

A newsletter--MAS would be an excellent support document.

Appears to be very good.

It is difficult for me to know in what areas my 64 partners are rendering informal advice. There is no firm policy. Some of the subject areas used terms such as studies, audits and reviews which implied structured MAS engagements.

Our partners responsible for professional development might better be able to answer questions about which courses and which methodology are most needed by the non-MAS professionals in the firm.