

LEARNING TO MANAGE YOUR PERSONAL FINANCES – PART 2

Volume 51 / High School



Developed with Arlyn Lawrence and Dennis Trittin, from the *What I Wish I Knew at 18* Leadership and Life Skills Program, LifeSmart Publishing

National FCS Standards:

2.5.4 Analyze practices that allow families to maintain economic self-sufficiency

2.6.1 Evaluate the need for personal and family financial planning

2.6.2 Apply management principles to individual and family financial practices

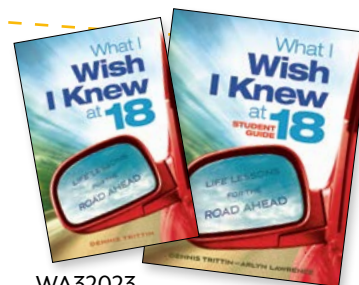
Objectives:

Students will...

- Learn how to monitor cash flow through the use of a cash flow statement and budget
- Learn how to analyze spending and make adjustments

Materials List:

- *What I Wish I Knew at 18: Life Lessons for the Road Ahead* Book (WA32023)
- Student Guide for *What I Wish I Knew at 18: Life Lessons for the Road Ahead* (WA32024)
- “(Sort of) Real World Budgeting Exercise/Real World Cash Flow Statement” Handouts (included)
- “You’re the Financial Advisor” Activity (included)



WA32023

WA32024

INTRODUCTION (10 MINUTES)

One of the most crucial components of being a good money manager is understanding where your money is coming from and where it is going. When you know how and when money flows through your household, you can be in control, as opposed to reacting.

The way to monitor your cash flow is by learning to use a cash flow statement. **A cash flow statement lists all expenses and sources of income that affect your cash flow.** When recording your income, consider more than just your regular salary and wages. You should include money you receive from odd jobs, bonuses, and interest income, etc. Then, you need to record all expenses, regular and irregular. You can record these in monthly averages if you like. Calculate the difference between your total income and expenses and you have a personal cash flow statement! The important thing to remember is that a positive number is positive cash flow (good!) and a negative number is negative cash flow (bad!). **The key to achieving financial security (and to eventually building wealth) is to keep that number POSITIVE.**

If your cash flow statement is, in fact, positive, then you can be using that additional money each month to help you reach your financial goals (build an emergency fund, pay down debt, invest, save for large purchases, etc.). If your cash flow statement is negative, then you have some work to do! Look for ways to generate more income and cut back on expenses. After you have identified these numbers, you can develop a budget, which is simply a self-imposed guideline for spending. It's easy to learn to do and you'll be glad you did!

Cashflow Statement

Education	Healthcare
Car	Travel
Entertainment	Hobbies
Family	Retirement
Career	Lifestyle
Housing	Bills

$$\text{Total income} - \text{Expenses} =$$

Personal Cashflow



Discussion (10-15 minutes)

In small groups, students should consider together the qualities of “money smarts” and talk about:

- Which principles they believe they already understand and can easily adopt in their lives
- Which will be the most challenging for each of them, knowing their current habits and financial understanding
- Why, in their opinion, many if not most people struggle at managing their finances

- Some specific ideas they think would help them and others at their age get a head start on good financial management (make a list of these)

In the large group:

Gather students back into the large group and have a representative from each group share some of the ideas they came up with for getting a head start on good financial management right now.

Money SMARTS

Saving Smarts	Saving 10% of Earnings
Budgeting Know-How	Needs Before Wants
Debt Saviness	Using Credit Wisely
Behavior Change	Saves instead of spends
	Stick to Budget

WHERE IS MONEY SPENT?

Housing - \$16,920 - \$20,000
 Transportation - \$8,758
 Food - \$6,000
 Entertainment - \$2,698
 Healthcare - \$2,853

WHERE IS MONEY BEING WASTED? HOW TO SAVE ON COSTS?

Utilities - Save on energy used by keeping off lights in rooms unattended.
 Food - Eat out less. Buy in bulk. Compare unit prices.
 Entertainment - Ditch the TV, you only watch 3 of your 5,000 channels anyways.
 Exercise - Running is FREE. Don't pay for the gym membership during the summer months.

(SORT OF) REAL WORLD EXERCISE

When it comes to budgeting (allocating your income to live charitable donations, it pays to prepare monthly/quarterly spend your money and whether or not you're on track. It's not as hard as you think it is. You can't reduce these payments, change like you are variable (you can change how much you spend month to month) some expenses are essential (must-haves like food and housing like the clothing, broadband, utilities, and cell phone). One of the greatest challenges in managing money is results. As consumers, we have more choices in how to spend discipline to pay for things we can't afford and making income.

The exercise you're about to do will give you an overview to budget. Your job is to develop three budgets (essential, discretionary, and total) on the following page. Provide Discretionary items listed on the following page. Provide essential expenses, discretionary expenses, savings and income.

1. What are your priorities?
 2. How did your spending change at levels of income?

INCOME ASSUMPTIONS:

Income	Taxes
\$30,000	\$2,700
\$50,000	\$3,000
\$70,000	\$3,700
\$90,000	\$3,700

ESSENTIAL EXPENSES:

Housing-related:
 Rent: \$9,000 (\$750/mo.)
 Market: \$12,000 (\$1,000/mo.)
 Average: \$14,000 (\$1,167/mo.)

Food/Clothing/Other Essentials-related:
 Market: \$8,000 (\$667/mo.)
 Average: \$12,000 (\$1,000/mo.)
 Expensive: \$16,000 (\$1,333/mo.)

REAL WORLD CASH FLOW STATEMENT

(Numbers in parentheses indicate recommended percentages)

INCOME	
Salary/Wages (net)	_____
Investment Earnings	_____
TOTAL INCOME (cash inflow)	_____
CHARITABLE GIVING (5-10)	
SAVINGS/INVESTMENTS (10-20)	_____
Short-term	_____
Long-term	_____
DEBT/LOAN PAYMENTS (0-10)	
Credit Cards	_____
School Loans	_____
Other	_____
HOUSING (20-30)	
Mortgage/Payoff/Rent	_____
Repairs/Upkeep	_____
Utilities (cable/electric/gas, ...)	_____
TRANSPORTATION (5-15)	
Car Loan	_____
Gas/Maintenance/Repairs	_____
INSURANCE (5)	
Car	_____
Home	_____
Life	_____
Medical	_____
HOUSEHOLD/PERSONAL (10-20)	
Food	_____
Clothing	_____
Liquor/Tobacco	_____
Barber/Beauty/Massage	_____
Technology	_____
Books/Magazines	_____
Gifts	_____
Other	_____
TOTAL EXPENDITURES	_____
TOTAL INCOME LESS EXPENDITURES	_____
NET CASH FLOW	_____

Activity - Developing a Cash Flow Statement and Budget (30 minutes)

Together, groups should go through the handouts, “(Sort of) Real World Budgeting Exercise/Real World Cash Flow Statement,” with each individual completing their own worksheet.

CONCLUSION (5 MINUTES)

In the large group:

One of the greatest challenges in managing money is first spending on our needs before our wants. As consumers, we have many choices in how to spend our money. The key is having the discipline to say no to things we can't afford and making wise choices in how we use our income. Ask for a show of hands: How many learned some new ideas and tools from this lesson on “money smarts?” How many plan to use these principles in their lifetime? Congratulate those who indicated a commitment and affirm your belief in their success if they will apply these financial principles and tools throughout their lives.

Optional Follow-Up Activity

The “You're the Financial Advisor” exercise can extend this lesson to another class session. Students can work in groups to complete the exercise in which they will become the consultants to the “Spendthrift” family. Using what they've learned, students will help the “Spendthrifts” develop a cash flow statement and budget, and make some recommendations for lifestyle adjustments to help them live within their budget.

YOU'RE THE FINANCIAL ADVISOR!

Imagine you have been appointed as the financial advisor for the “Spendthrift” family. In this role, you will be responsible for helping them manage their money and make wise choices. You will be given a list of their current expenses and income, and you will need to help them develop a budget and a cash flow statement. You will also need to provide recommendations for lifestyle adjustments to help them live within their budget.

SPENDTHRIFTS' FINANCIAL ITEMS (ANNUAL)

Category	Amount
Income	\$30,000
Charitable giving	\$1,500
Investment earnings	\$1,500
Essential expenses	\$14,000
Discretionary expenses	\$12,000
Total income	\$33,000
Total expenses	\$26,000
Net cash flow	\$7,000

SPENDTHRIFTS' CASH FLOW STATEMENT

Using the information provided on the previous page, fill in the blank spaces on the next page to complete the statement.

INCOME	
Salary/Wages (net)	_____
Investment Earnings	_____
TOTAL INCOME (cash inflow)	_____
CHARITABLE GIVING (5-10)	
SAVINGS/INVESTMENTS (10-20)	_____
Short-term	_____
Long-term	_____
DEBT/LOAN PAYMENTS (0-10)	
Credit Cards	_____
School Loans	_____
Other	_____
HOUSING (20-30)	
Mortgage/Payoff/Rent	_____
Repairs/Upkeep	_____
Utilities (cable/electric/gas, ...)	_____
TRANSPORTATION (5-15)	
Car Loan	_____
Gas/Maintenance/Repairs	_____
INSURANCE (5)	
Car	_____
Home	_____
Life	_____
Medical	_____
HOUSEHOLD/PERSONAL (10-20)	
Food	_____
Clothing	_____
Liquor/Tobacco	_____
Barber/Beauty/Massage	_____
Technology	_____
Books/Magazines	_____
Gifts	_____
Other	_____
TOTAL EXPENDITURES	_____
TOTAL INCOME LESS EXPENDITURES	_____
NET CASH FLOW	_____

(SORT OF) REAL WORLD BUDGETING EXERCISE

When it comes to budgeting (allocating your income to living expenses, savings and investments, and charitable donations), it pays to prepare monthly/quarterly cash flow statements. These detail how you spent your money and whether or not you're on track. It's important to note that some living expenses are fixed (you can't reduce these payments—things like your rent/mortgage and car loans) and others are variable (you can change how much you spend month to month (clothing and entertainment). Also, some expenses are essentials (must-haves like food and housing) while others are discretionary (nice-to-haves like fine dining, brand-name clothes, unlimited calling/texting plans).

One of the greatest challenges in managing money is first spending on our *needs* before our *wants*. As consumers, we have many choices in how to spend our money. The key is having the discipline to say no to things we can't afford and making wise choices in how we divvy up our income.

The exercise you're about to do will give you an overly simplistic glimpse at what it is like to budget. Your job is to develop three budgets assuming three different levels of income. You choose the level you wish to spend on Essentials (modest, average, or expensive) as well as on Discretionary items listed on the following page. Produce worksheets that list your income, essential expenses, discretionary expenses, savings and investments, and charitable giving.

- What are your priorities?
- How did your spending change at the lowest and highest levels of income?

INCOME ASSUMPTIONS:

Income	Taxes
\$30,000	\$2,700
\$50,000	\$8,000
\$80,000	\$17,600

ESSENTIAL EXPENSES:

Housing-related:

Modest	\$9,000 (\$ 750/mo.)
Average	\$12,000 (\$1,000/mo.)
Expensive	\$24,000 (\$2,000/mo.)

Food/Clothing/Other Essentials-related:

Modest	\$8,000 (\$ 667/mo.)
Average	\$12,000 (\$1,000/mo.)
Expensive	\$16,000 (\$1,333/mo.)

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Automobile (payment/insurance/maintenance):

Old used car:	\$1,200 (\$100/mo.)
Newer used car	\$4,800 (\$400/mo.)
New car	\$10,800 (\$900/mo.)

DISCRETIONARY EXPENSES:

Entertainment: (movies/dinner/sporting events):

1) 2x week (inexpensive)	\$2,600 (\$50/wk.)
2) 2x week (medium)	\$7,800 (\$150/wk.)
3) 2x week (expensive)	\$15,600 (\$300/wk.)
4) 1x week (inexpensive)	\$1,300 (\$25/wk.)
5) 1x week (medium)	\$3,900 (\$75/wk.)
6) 1x week (expensive)	\$7,800 (\$150/wk.)
7) 1x month (inexpensive)	\$300 (\$25/wk.)
8) 1x month (medium)	\$900 (\$75/wk.)
9) 1x month (expensive)	\$1,800 (\$150/wk.)

Vacations: (travel/hotel/food/etc.):

1) Europe	\$5,000 one week; \$8,000 two weeks
2) Hawaii	\$3,500 one week; \$6,000 two weeks
3) Southern California	\$2,500 one week; \$4,000 two weeks
4) RV trip	\$1,000 one week; \$1,750 two weeks
5) Camping	\$300 one week; \$500 two weeks

Health Insurance:

Premium Plan	\$7,200 (\$600/mo.)
Good Plan	\$4,500 (\$375/mo.)
Basic Plan	\$2,400 (\$200/mo.)

Cable TV Packages:

Premium (all stations)	\$1,200 (\$100/mo.)
Average (some extras)	\$840 (\$ 70/mo.)
Basic	\$480 (\$ 40/mo.)

Budget Worksheet Guidelines:

- Select one level of spending in each Essential and Discretionary category
- Assume three weeks of vacation
- Remember to save room for investments and charitable giving
- Remember your goal is positive cash flow!

REAL WORLD CASH FLOW STATEMENT

(Numbers in parentheses indicate recommended percentages)

INCOME

Salary/Wages (net) _____
 Investment Earnings _____

TOTAL INCOME (cash inflow) _____

CHARITABLE GIVING (5-10) _____

SAVINGS/INVESTMENTS (10-20) _____

Short-term _____
 Long-term _____

DEBT/LOAN PAYMENTS (0-10) _____

Credit Cards _____
 School Loans _____
 Other _____

HOUSING (20-35)

Mortgage/Taxes/Rent _____
 Repairs/Upkeep _____
 Utilities (cable/electric/gas . . .) _____

TRANSPORTATION (5-15)

Car Loan _____
 Gas/Maintenance/Repairs _____

INSURANCE (5)

Car _____
 Home _____
 Life _____
 Medical _____

HOUSEHOLD/PERSONAL (15-25)

Food _____
 Clothing _____
 Liquor/Tobacco _____
 Barber/Beauty/Massage _____
 Technology _____
 Books/Magazines _____
 Gifts _____
 Other _____

ENTERTAINMENT (5-10)

Dining _____
 Shows _____
 Vacations _____
 Clubs/Rec. _____
 Coffee/Social _____

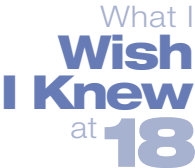
MISCELLANEOUS (2-5) _____

TOTAL EXPENDITURES _____

TOTAL INCOME _____

LESS EXPENDITURES _____

NET CASH FLOW _____



BUDGETING

Now that you’ve seen how families analyze their spending through cash flow statements, the next step is creating a budget. This is an essential tool to ensure your spending remains within the targets you establish. In order to do a budget, you need to create “budgeted” or “targeted” levels of spending for each category that appears on the cash flow statement. (Note: the percentages appearing on the previous cash flow statements are a useful guide for determining budgeted amounts.) Then, by monitoring your actual spending (through keeping track of your expenses) you will be able to compare what you actually spent with the amounts you budgeted. The difference between actual and budgeted expenses is called a “variance,” which will either be positive or negative depending on whether you over- or underspent compared to your budget.

Most people do budgets on a monthly or quarterly basis. If spending gets out of hand, it becomes very obvious from the budget worksheets. This will guide you to making the necessary adjustments to your lifestyle and spending in order to live within your means.

A sample budget form follows. Be sure to incorporate budgeting in your financial management. If everyone did, our world would be in much better financial shape!

Notes

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BUDGET WORKSHEET

Period _____

CATEGORY	ACTUAL	BUDGET	VARIANCE	EXPLANATION
INCOME				
Salary/Wages (net)				
Investment Earnings				
TOTAL INCOME (cash inflow)				
CHARITABLE GIVING (5–10%)				
SAVINGS/INVESTMENTS (10–20%)				
Short-term				
Long-term				
DEBT/LOAN PAYMENTS (0–10%)				
Credit Cards				
School Loans				
Other				
HOUSING (20–35%)				
Mortgage/Taxes/Rent				
Repairs/Upkeep				
Utilities (cable/electric/gas . . .)				
TRANSPORTATION (5–15%)				
Car Loan				
Gas/Maintenance/Repairs				
INSURANCE (5%)				
Car				

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CATEGORY	ACTUAL	BUDGET	VARIANCE	EXPLANATION
Home				
Life				
Medical				
HOUSEHOLD/PERSONAL (15-25%)				
Food				
Clothing				
Liquor/Tobacco				
Barber/Beauty/Massage				
Technology				
Books/Magazines				
Gifts				
Other				
ENTERTAINMENT (5-10%)				
Dining				
Shows				
Vacations				
Clubs/Rec.				
Coffee/Social				
MISCELLANEOUS (2-5%)				
TOTAL EXPENDITURES				
TOTAL INCOME				
LESS EXPENDITURES				
NET CASH FLOW				

YOU'RE THE FINANCIAL ADVISOR!

Sean and Susie Spendthrift desperately need your help. They go “first class” in everything they do (finest restaurants/vacations/home/car/clothes) and were horrified to learn from their friendly banker that they failed to qualify for a loan. They were told, in no uncertain terms, that their spending has gotten out of control and they need to get their financial house in order.

The Spendthrifts never read *What I Wish I Knew at 18: Life Lessons for the Road Ahead* and have never produced a cash flow statement or measured their spending. As someone who has read the book and understands sound financial principles, you agree to offer your advice to get them back on track. You ask them to provide a list of expenses by category along with income, charitable donations, and investments.

Based on this information, you develop a cash flow statement and offer recommendations about how to turn their cash flow from negative to positive. In your interview, you learn that Susie has gone from a full-time web designer to part time (moving from \$50,000 to \$15,000 gross pay) in order to devote more time to volunteer causes. Sean is a contractor who grossed \$57,000 last year. They're in a 25% tax bracket.

The listing of financial items and the blank Spendthrifts' Cash Flow Statement you will need to complete are on the following pages. Notice that each expenditure category has suggested percentages, which will assist you in developing your recommendations.

Be creative in your advice. The Spendthrifts need all the help they can get! Provide a summary assessment of their situation and detailed recommendations for them to consider.

Assessment and Recommendations

SPENDTHRIFTS' FINANCIAL ITEMS (ANNUAL)

INCOME:

Combined salary (gross)	\$72,000
Investment earnings	\$0

CHARITABLE GIVING:

Local food bank:	\$300
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SAVINGS/INVESTMENTS:

(none available)

DEBT:

Credit cards (4)	\$4,000
College loans	\$2,500
Personal loan from friend	\$500

HOUSING:

Mortgage	\$15,000
Repairs, etc.	\$1,000
Utilities	\$3,000

TRANSPORTATION:

Autos	\$7,200
Maintenance	\$800

INSURANCE:

Car	\$1,200
Home	\$1,500
Life	\$0
Medical	\$1,000

HOUSEHOLD/PERSONAL:

Food	\$8,000
Clothing	\$2,700
Liquor/Tobacco	\$800
Barber/Beauty/Massage	\$700
Technology	\$500
Books/Magazines	\$200
Gifts	\$800
Other	\$0

ENTERTAINMENT:

Dining	\$2,800
Coffee/Social	\$800
Vacations	\$2,500
Clubs/Rec.	\$1,200

MISCELLANEOUS:

\$1,500

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ASSIGNMENT: FIX THE SPENDTHRIFTS' CASH FLOW

Using the following page, transfer the amounts from page 152 into the blank spaces on the cash flow statement below.

SPENDTHRIFTS' CASH FLOW STATEMENT

(Numbers in parentheses indicate recommended percentages)

<p>INCOME</p> <p>Salary/Wages (net) _____</p> <p>Investment Earnings _____</p> <p>TOTAL INCOME (cash inflow) _____</p> <p>CHARITABLE GIVING (5–10) _____</p> <p>SAVINGS/INVESTMENTS (10–20) _____</p> <p>Short-term _____</p> <p>Long-term _____</p> <p>DEBT/LOAN PAYMENTS (0–10) _____</p> <p>Credit Cards _____</p> <p>School Loans _____</p> <p>Other _____</p> <p>HOUSING (20–35)</p> <p>Mortgage/Taxes/Rent _____</p> <p>Repairs/Upkeep _____</p> <p>Utilities (cable/electric/gas . . .) _____</p> <p>TRANSPORTATION (5–15)</p> <p>Car Loan _____</p> <p>Gas/Maintenance/Repairs _____</p> <p>INSURANCE (5)</p> <p>Car _____</p> <p>Home _____</p> <p>Life _____</p> <p>Medical _____</p> <p>HOUSEHOLD/PERSONAL (15–25)</p> <p>Food _____</p> <p>Clothing _____</p> <p>Liquor/Tobacco _____</p> <p>Barber/Beauty/Massage _____</p> <p>Technology _____</p> <p>Books/Magazines _____</p> <p>Gifts _____</p> <p>Other _____</p>	<p>ENTERTAINMENT (5–10)</p> <p>Dining _____</p> <p>Shows _____</p> <p>Vacations _____</p> <p>Clubs/Rec. _____</p> <p>Coffee/Social _____</p> <p>MISCELLANEOUS (2–5) _____</p> <p>TOTAL EXPENDITURES _____</p> <p>TOTAL INCOME _____</p> <p>LESS EXPENDITURES _____</p> <p>NET CASH FLOW _____</p>
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