



Charting Your Course to Home Ownership

Managing Your Family Finances: Chart Your Cash Flow

After you have set your goals and organized your home office, you are ready to use the records you've gathered to develop important financial tools – cash flow worksheet, net worth statement, and family budget.

Cash Flow — the Tool to “Chart your Journey”

The next compass point in the money management process is cash flow. Understanding cash flow will help you get a clear picture of the ebb and flow of your money – past income and spending habits. A simple way to think of cash flow is that it is the money you have coming in and the money you have going out.

Income is generally easy to verify – it's usually the same every week or month unless you work on commission. Remember to include all verifiable sources of income such as child support, Social Security benefits, public assistance and so on.

To get an accurate picture of your cash flow, it is helpful to record everything you earn and spend for a typical month or two. Expenses are generally broken down in two ways. **Fixed** expenses are those expenses that stay the same every month. They are also the expenses you must pay each month to protect your credit rating. Examples of fixed expenses are rent or mortgage payments and installment payments such as a student loan, a car loan, or a furniture loan. Other fixed expenses are those “survival” expenses such as utilities (lights, gas, water and sewer) and phone services.

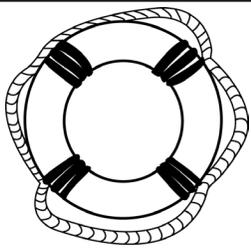
Flexible, or controllable, expenses are the expenses that vary each month. Examples are groceries, clothing, entertainment, household cleaning supplies, personal grooming items, etc.

When recording expenses for a typical month or two, it's helpful to set up your own expense categories. It may be helpful to think of expense categories as “labels” that identify related groups of things you spend money on. Examples of typical expense categories are housing, transportation, loans, credit cards, groceries, utilities, household cleaning items, personal grooming items, etc.

This publication will introduce you to three different tools to help you monitor your cash flow. Everyone's lifestyle and recordkeeping skills are different, so it is important to find a system that works for you.

The “Spending Record – On the Go” tool on pages 13-14 provides a simple, handy method for tracking your spending each day. Keep it in your purse or pocket to write down your expenses **each and every time you spend money!** Then total your daily expenses. You may be surprised to know how much you actually spend each day.





Life Saver

Don't forget to budget for periodic expenses such as gifts, school clothes, dues, holidays, and other expenses that only occur a few times a year. These are often budget busters! Also, plan ahead for emergencies! Think carefully. How old are your tires? Are any of your appliances over 10 years old? Most unexpected expenses are not really unexpected; they are just neglected. Plan for emergencies by setting a savings goal equal to at least one month's take-home pay. This is the bare minimum you should have in savings! Ideally, experts suggest setting aside at least 3 months' take-home pay. Individuals with unstable income or income that fluctuates – such as people who work on commission or who have seasonal jobs should set aside 6 months take-home pay.

Keep in mind – recording your expenses may take time, but it is well worth the time spent. If you do this – record your expenses for a typical month or two – you will have a much clearer picture of where your money is going. To aid you in this process, we have several examples and work sheets.

Expense Ledgers and Cash Flow Work Sheets – Tools to chart where you've been!

You can purchase a ledger book from an office supply store, use the ones provided in this publication or you can design your own **ledger sheets** by simply making columns in a looseleaf notebook.

The steps are simple:

- Label a column for each of your expense categories.
- Each time an expense is incurred, record it in the appropriate column in the expense ledger. It will be easy to transfer the expenses that you have recorded in your “Spending Record – On the Go” to your ledger sheet each day or week.
- At the end of each month, total each column.
- Transfer monthly totals into your cash flow work sheet.

Now you have a true and accurate picture of where your money has been spent! By completing ledger sheets and transferring your totals into a **cash flow work sheet**, you can determine whether cash flow is positive (income greater than expenses) or negative (expenses greater than income). Sample ledger sheets, ledger forms, sample cash flow work sheets and cash flow worksheets are provided on pages 15-20.

Why does cash flow matter? To be a successful financial manager, your income and expenses need to balance. If you continually spend more than you earn, you will have a negative cash flow. As a result, you'll eventually go broke!

The opposite is also true – if you live below your means, you'll have a positive cash flow. You'll have the money you need to save and invest for long term goals such as a mortgage, your child's college education and your retirement.

If your cash flow doesn't look as positive as you would like it to be, take control of your spending. Find ways to reduce expenses and bring them in line with your income. One way to do this is the “10% Solution.” This simply means try to save 10% of your monthly income by reducing flexible household expenses such as food, clothing and entertainment. Over time, the results really add up! If you can't save 10%, start with 5% ... even 2%! Any amount you save will be a step in the right direction!

Preparing a cash-flow statement not only improves your financial planning but also helps you secure credit. Lenders will often ask about your cash flow to determine if you will be able to meet your debt obligations while still making ends meet for your family. As a potential home buyer, having an accurate cash-flow statement will show your lender that you are financially responsible.

Anchor Deeper: Please keep in mind ... these forms and work sheets are only examples of tools you can use to track cash flow. You could also organize expense envelopes, labeling each envelope with your expense category. Or, if you're handy with computer spreadsheet software, you could create a working tally sheet that allows you to have a running total of expenses. If you're even more advanced, you could use personal finance software programs like Quicken or Microsoft Money. Not only do these programs allow you to record expenses in categories that you set up for yourself, they also balance your checkbook!

_____ Total: _____

Saturday
Category Amount

Friday
Category Amount

Thursday
Category Amount

Wednesday
Category Amount

Spending Record
on the Go

Sunday
Category Amount

Monday
Category Amount

Tuesday
Category Amount

Week of: _____

Instructions:
Record

all the money you
spend each day. Total
each category, then
transfer totals to
your ledger.

Total: _____

Total: _____

Total: _____

Spending Record — On the Go

Instructions:

1. Fold form in half lengthwise. Results in 4.25" x 11"
2. Fold in half crosswise. Results in 4.25" x 5.5"
3. Fold in half again crosswise. Results in 4.25" x 2.75"
4. Identify the week you are recording by filling in the "Week of: _____" section. (Example: Week of: April 20-26, 20__)
5. Keep the expense tracker in your purse or pocket. Anytime you spend money, write it down. Identify each expense by its budget category.
6. Total your expenses each day.
7. At the end of each week, transfer your expenses, by category, to your ledger sheet.

Ledger Sheet to Track Expenses

Month March Year 2008

Date		Gas		Groceries		Household Supplies		Personal Grooming		Restaurants	
3-1	Chevron	49	29								
3-1	Kroger's			34	26	10	01	5	29		
3-2	Market Basket			12	31						
3-3	Sonic									5	49
3-4	Chili's									36	00
3-5	Dollar General					6	59				
3-6	Wal-Mart			79	01	22	44				
3-8	Chevron	51	29								
3-8	Kroger's			49	79						
3-9	Albertson's			10	00			4	37		
3-10	Dollar General					10	39				
3-11	Market Basket			21	29						
3-12	Wal-Mart			31	93	3	11				
3-14	Hair Salon							25	00		
3-15	Nail Salon							25	00		
3-16	Exxon	47	20								
3-18	Wal-Mart			8	98						
3-20	Dollar General					4	79				
3-21	McDonald's									10	95
3-22	Kroger's			9	02						
3-23	Popeye's									14	99
3-24	Kroger's			11	98	79					
3-26	Market Basket			29	11						
3-29	Seafood Mart			49	00						
3-30	Stop-N-Go			2	59						
3-31	Nail Salon							25	00		
	TOTALS	147	78	349	27	58	12	84	66	67	43

Cash Flow Work Sheet		
Monthly Income (Cash in)		
Salary (take home pay)		3,600
Child support		376
Public assistance/food stamps		
SSI/Social Security/Retirement benefits		
Other		
Other		
Total		\$3,976
Monthly Expenses (Cash out)		
Fixed Expenses		
Rent (or house note)		550
Car note(s)		200
Child care/elder care		250
Child support/alimony		
Other loan payment(s)		75
Credit card		50
Credit card		100
Gasoline		147
Home owners or renters insurance		300
Health insurance		100
Life/disability/long-term care insurance		
Car Insurance		89
Savings		250
Utilities:		396
Electricity	90	
Natural gas	119	
Water/sewer	20	
Garbage	20	
Cable TV	49	
Telephone		
Cell phone	77	
Internet	21	
Total	396	\$2,507

Flexible (Controllable) Expenses	
Food at home	349
Food out	67
School lunches	25
Household supplies	58
Lawn care	80
Personal grooming supplies	84
Clothing	145
Laundry/drycleaning	20
Entertainment/Recreation	30
Auto repair/maintenance	203
Medical	67
Donations	50
Pet Care	33
Personal Allowance (“Mad Money”)	25
Monthly periodic expenses	50
Other	60
TOTAL	\$1,346
Income Total	\$3,976
Fixed Expense Total	2,507
Flexible Expense Total	1,346
Expense Total	\$3,853
Difference between income and expenses	\$123

Fixed expenses are those that stay the same each month. Fixed expenses also include “survival” expenses such as utilities... or any payment that protects your credit rating such as the minimum monthly payment on a credit card or the required monthly payment on an installment or student loan.

Flexible expenses (sometimes called variable expenses) are those that fluctuate each month. They are also the expenses that you have some control over. For example, if you want to save money on groceries, you can buy less expensive cuts of meat, clip coupons, shop on sale, or use generics instead of brand names.

Cash Flow Work Sheet	
Monthly Income (Cash in)	
Salary (take home pay)	
Child support	
Public assistance/food stamps	
SSI/Social Security/Retirement benefits	
Other	
Other	
TOTAL	
Monthly Expenses (Cash out)	
Fixed Expenses	
Rent (or house note)	
Car note(s)	
Child care/elder care	
Child support/alimony	
Other loan payment (s)	
Credit card	
Credit card	
Gasoline	
Home owners or renters insurance	
Health insurance	
Life/disability/long-term care insurance	
Car Insurance	
Savings	
Utilities:	
Electricity	
Natural gas	
Water/sewer	
Garbage	
Cable TV	
Telephone	
Cell phone	
Internet	
TOTAL	

Flexible (Controllable) Expenses	
Food at home	
Food out	
School lunches	
Household supplies	
Lawn care	
Personal grooming supplies	
Clothing	
Laundry/drycleaning	
Entertainment/Recreation	
Auto repair/maintenance	
Medical	
Donations	
Pet Care	
Personal Allowance (“Mad Money”)	
Monthly periodic expenses	
Other	
TOTAL	
Income Total	
Fixed Expense Total	
Flexible Expense Total	
Expense Total	
Difference between income and expenses	

Adapted from: Reichel, C. (1998). *Your Path to Home Ownership*. Baton Rouge, La.: LSU AgCenter.

Additional Resources:

- Federal Deposit Insurance Corporation. (2008). “Money Matters.” *Money Smart*. Retrieved April 18, 2008 from <http://69.0.254.19/wwwMS/english/main.htm>
- National Endowment for Financial Education. (2006). *High School Financial Planning Program: Student Guide*. Greenwood Village, Colorado. National Endowment for Financial Education.
- O’Neill, B. & Enslie, K. (2006). *Small Steps to Health and Wealth*. Ithaca, NY. Natural Resource, Agriculture and Engineering Service Cooperative Extension.

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