

Part 1 – Managing Your Cash Flow



Setting Priorities – Distinguishing between Needs and Wants

(adapted from Taking Stock In Your Future Intermediate Guide)



Financial success is usually a result of consciously deciding what we really need and want and making a realistic plan to achieve these things. In order for us to get what we need or want, we have to have a clear understanding of how we are spending our money.

Where do you spend most of your money? Do you spend it on “needs” or “wants”? Your needs are the things you need for your daily living. Your wants are things that you may wish to have but are not necessary to your daily living. We try to spend money on both our needs and our wants.

NEEDS

What food do I need?

What clothing do I need for school and work?

What type of transportation do I need for my life?

WANTS

What food do I like?

What style / designer clothing do I like?

What kind of car would make me look cool?

One way to avoid either spending only on needs or only on wants is to classify your expenditures as needs or wants. Then set aside enough of your earnings to buy your needs. Set aside an amount for your savings and a smaller amount for your wants. How much you set aside for savings will depend upon how eager you are to build wealth. The idea of setting aside an amount for your savings before you spend on your wants is called the pay-yourself-first principle. This avoids the trap of spending everything on wants and having no money left over for savings.

Analysing Your Expenditures (expenses)

Make a table like the one shown below.

1. List your monthly expenditures by category (want or need).
2. Beside each category, write the average amount you spend on that item each month.
3. Calculate your total expenditures
4. Calculate each expenditure as a percent of your total expenditures.

EXPENDITURE	WANT / NEED	AVERAGE MONTHLY COST	% OF TOTAL EXPENDITURE
School supplies			
Cab fare			
Public transportation			
Clothes			
Fast food			
Entertainment (movies etc.)			
Merchandise (jewellery, CDs, DVDs)			
Other expenditures			
Pay-Yourself-First Principle			
			100 %

Setting Priorities cont'd.

1. Use a spreadsheet program to enter your needs and wants in percentages. What % of your expenditures are needs?
What % of your expenditures are wants?
2. Create a pie chart showing your total wants and total needs in %. What does your graph indicate about your expenditures?
3. Calculate your total monthly income (allowance, earnings). Compare your total monthly expenditures to your total monthly income. Does your income cover your expenditures?
4. What are some ways you can reduce your expenditures to ensure that you are within your monthly budget?
5. What % of your expenditures is allocated to savings? What are some ways you can increase the % allocated for this expenditure?

Internet exercise:

Get tips on how to track your spending. View the Funny Money video clip, Track-O-Matic video clip at www.getsmarteraboutmoney.ca.

Whenever you spend money, you are making a decision, even if it is a small one. Before you take out your wallet, remember to ask yourself the following questions:

- Do I NEED it?
- Is there an alternative to buying it?
- What else do I want?
- Why do I want it?
- How would life be different if I had it? What would change if I had it?

Know Your Cash Flow



Students today are bombarded with credit card offers and incentives. Applying for the card is easy. Paying off the monthly statement is more difficult for many. Sales, advertisements and peer pressure also can cause you to spend more money than you actually have. One way to ensure that you spend only what you have, is to know your cash flow – a map of your monthly inflow (income) and outflow (expenses) of cash.

Case Study: You have been advised that you will be responsible for your post-secondary tuition (\$4,500 in year 1). You have savings of \$800 which you were planning to use to take a vacation during March break.

Do you know how much money you spend (lunches, clothing, transportation, entertainment, itune downloads etc.) on a monthly basis? Will you be able to save enough for your tuition?

1. Based on the above scenario, use the cash flow worksheet template to map out your income and expenses for the next 12 months. The list of items on the template will guide your choices for income and expenses. Use a spreadsheet program to create your cash flow worksheet.
2. Record your income and expenses. Try to be as realistic as possible. Your expenses and income may fluctuate monthly. For example, you could earn more income during the summer months or incur higher expenses in December due to vacation and seasonal expenses.
3. What did you learn from doing this exercise?
4. Have you identified any changes you need to make with respect to your spending?

Know Your Cash Flow



YOUR CASH FLOW	MONTH	MONTH	MONTH	MONTH
NET EMPLOYMENT INCOME				
Income				
Bank of Mom & Dad				
Cash gifts/allowance				
Investment				
Total Net Income				
EXPENSES				
Housing (rent, mortgage)				
Utilities (cell phone, cable, etc.)				
Food (groceries, eating out)				
Personal care				
Clothing				
Transportation				
Public transit				
Car expenses (gas, oil etc.)				
Repairs, insurance				
Recreation				
Entertainment				
Hobbies				
Vacation				
Education				
Savings plan				
Debt repayment				
TOTAL EXPENSES				
Total income				
Less expenses				
Ending cash balance				

Spend Or Save?



Spend or save? Most of us will likely choose or prefer to spend now and save later. Does it really matter if we spend now and start saving at a later date?

Let's look at two friends who have different goals and saving habits.



Katherine prefers to spend now and save later.

She will start her retirement savings account at age 35. She will make an initial contribution of \$2,000, and then continue with **monthly contributions of \$200 until age 65.**



Nadine prefers to save now for her future.

She decides to start her retirement savings plan at age 18. She will make an initial contribution of \$100 and continue to make **monthly contributions of \$100 until age 65.**

1. How much will Katherine have contributed to her RRSP at age 65?
2. How much will Nadine have contributed to her RRSP at age 65?
3. Who do you think will have the larger amount at age 65? Why?
4. Calculate how much both savings plans are worth if their investments grew at a rate of 10% compounded annually. Use an online calculator to help you get our answer. (For example: Investments & Regular Deposits calculator on www.fiscalagents.ca)
5. What conclusions can you draw regarding investment period and investment value? Specifically, what impact does time have on investment value?