The Family Budget

Financial Planning Tips: A look at Cashflow and Budgeting

By David Acheson

Uncertainty in the workplace, early retirements and the desire for financial independence are just some of the factors that have contributed to the increased popularity of financial planning.

Cashflow measuring and successful budgeting are critical in achieving financial objectives and may be the most important elements in successful planning.

While measuring your cashflow and budgeting can be challenging tasks, they provide important information on which you will base your decisions.

It is best to be honest with yourself and record your spending habits as they actually are. This information can help you find ways of increasing your savings or paying off debts sooner.

How you adjust your spending habits and design your budget will depend on your financial goals. Setting and prioritizing your goals will help you determine how to allocate your income. Goal setting is a personal choice, but some basic cashflow goals are:

- ensuring funds are available to meet ongoing expenses
- ensuring contingency funds are available to meet unexpected expenses
- minimizing unproductive investments
- avoiding liquidity problems.

The following are tips than may be helpful to you in achieving your ultimate goal of financial independence:

1. Set up a spending plan

The "where does the money go?" question frequently comes up because of spending on a day-to-day basis, without any sort of plan for taking care of needs and wants. A money management program can help you use your money wisely and reach your goals. Establish and prioritize your goals, short and long term. Review your present spending pattern and make adjustments where possible to contribute toward your goals.

2. Set up a cash reserve

Financial experts recommend that every family have a cash reserve of at least three months expenses to meet unexpected costs. Acquiring this means developing good saving habits and demonstrating self-restraint in spending. Knowing you have a cushion of savings will give you greater security and more flexibility while working towards your financial goals.

3. Develop large expense provisions

We all have large, predictable obligations that come due at irregular intervals during the year. A large, forgotten insurance premium or tax bill can cause financial chaos if you've neglected to accumulate sufficient funds. Divide your large annual expenses into 12 equal instalments and save for them over the course of the year. The same practice can be applied to save funds for larger purchases due in a few years time, such as new appliances.

4. Limit your use of credit

Credit's pitfall is that families over-extend themselves and become obligated to larger payments than they can afford. A consolidation loan may help to improve cashflow. Remember that credit terms differ, so shop as carefully for credit as you do for goods and services, and be sure to know the real cost of credit.

The payments must fit into your budget and don't take on more than you can handle. Keep track of expenditures made with charge accounts or credit cards, and have a definite target date for paying the debt off before credit is used for making the purchase.

5. Use windfalls constructively

Most families tend to spend the extra money on luxuries without considering the benefits of various financial uses.

For example, paying down a mortgage by a thousand dollars can save significant interest over the term of the mortgage. There are many ways to put windfalls to constructive use.

Thought should be given to applying some of the windfall to financial needs and some for luxuries. Pay raises are more common; adding all or a portion of the net pay raises to your savings before you get in the habit of spending the increase will improve your ability to save.

6. Eliminate spending leaks

The convenience of quick access to our money through ATM's etc., has made impulse buying and frittering away small amounts here and there on little things a dramatic drain on our resources. Write down every cent you spend for a week and take a good hard look at your spending leaks. Using an allowance can help minimize this problem and assist you to forecast spending patterns.