

F1 – Project-Stage 5: Tracking daily expenses

TCHE322

Tillery & Tillery (2017). Chapter 2
Thomas (2009). Chapter 3
Lawrence et al (2011). Chapter 2
CFP Handbook (2015). Chapter 7

Personal finance planning

Personal finance planning process

1. Define financial goals.



2. Develop financial plans and strategies to achieve goals.



3. Implement financial plans and strategies.



4. Periodically develop and implement budgets to monitor and control process toward goals.



5. Use financial statement to evaluate results of plans and budgets, taking corrective action as required.



6. Redefine goals and revise plans and strategies as personal circumstances change.

Essential Information of personal financial plans *

1. A summary of the goals
2. **Significant assumptions and justification**
3. **Estimates**
4. Recommendations
5. A description of limitations on the work performed
6. The recommendations in the engagement should contain qualifications to the recommendations if the effects of certain planning areas on the client's overall financial picture were not considered.

** Adapted from Paragraph .35, Statement on Standards in Personal Financial Planning Services No. 1*

Schedule of lectures

Project topic covered

- Categorise expenses
- Allocating expenses

Groupwork project activities

- Estimate daily expenses
- Recording monthly and yearly expenses
- *Expected outcome:* Monthly income and expenses statement

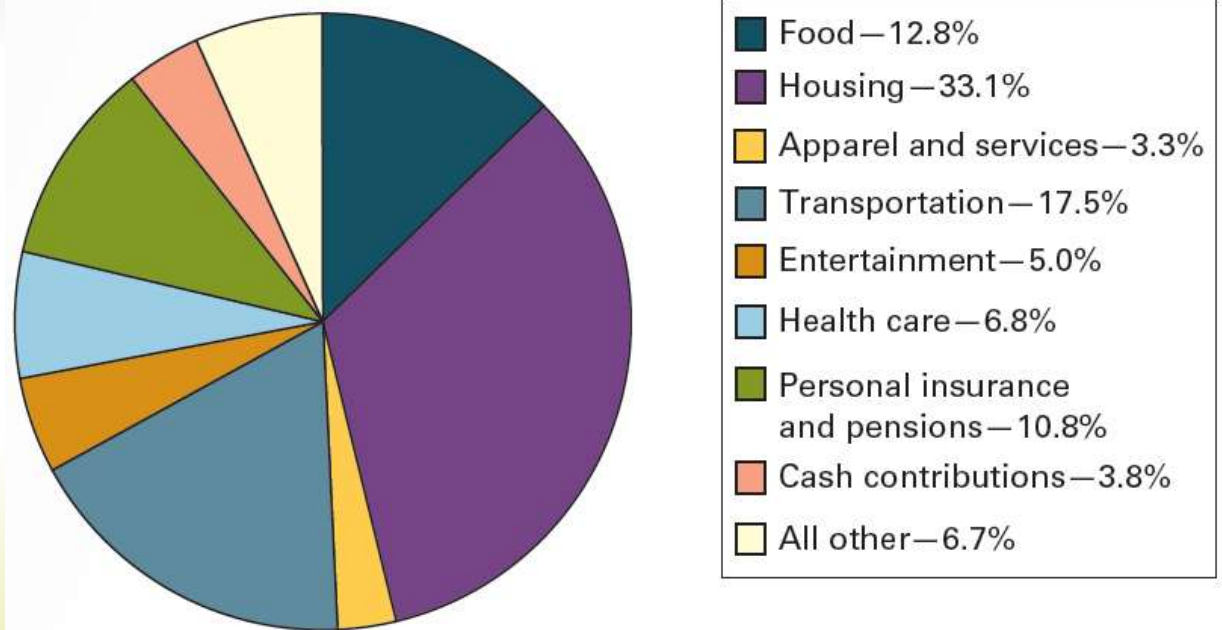
Categorise expenses

TABLE 4-2		CATEGORIZING EXPENSES	
EXAMPLES OF FIXED EXPENSES	EXAMPLES OF VARIABLE EXPENSES	EXAMPLES OF DISCRETIONARY EXPENSES	EXAMPLES OF TAX EXPENSES
Automobile payments	Automobile maintenance	Clothing	FICA taxes
Credit cards (minimum payment due)	Charity	Entertainment	Income taxes (federal, local and state)
Housing (mortgage or rent payments)	Contingency (10 percent of gross income for the unanticipated and unexpected)	Gifts given	Self-employment taxes
Insurance premiums	Food	Vacation	
Property tax	Home maintenance		
	Utilities		

Calculate expenses as a
percentage of gross income

Employment (salary/wages)
Investment income received
Employer contributions to benefit plans
Alimony
Child support

Exhibit 2.3 How we Spend our Income



Source: Derived from data in "Consumer Expenditures Midyear Update - July 2012 through June 2013 Average," Washington, D.C.: U.S. Department of Labor, Bureau of Labor Statistics, News Release, USDL-14-0874, Table A, "Average Expenditures and Characteristics of All Consumer Units and Percent Changes, May 23, 2014, <http://www.bls.gov/news.release/cesmy.nr0.htm>, accessed July 2014.



Income and Expense Statement

- Prepared on a cash basis
 - **Cash basis:** *Only transactions involving actual cash inflows or actual cash outlays are recorded*
- **Income:** earnings received as wages, salaries, bonuses, commissions, interest and dividends, or proceeds from the sale of assets
- **Expenses:** Money spent on living expenses and to pay taxes, purchase assets, or repay debt



Income and Expense Statement

- **Cash surplus:** Excess amount of income over expenses
 - *Results in increased net worth*
- **Cash deficit:** Excess amount of expenses over income
 - *Results in insufficient funds and decreased net worth*



Preparing the Income and Expense Statement

- Record your income from all sources for the chosen period
- Establish meaningful expense categories
- Subtract total expenses from total income to get the cash surplus or deficit

Project activities – **Tracking daily expenses**

- Estimate daily expenses
- Recording monthly and yearly expenses