



29 January 2011

HOME FINANCES BOOKLET

Often as an accountant I am asked to assist businesses in forming budgets to help them be more profitable. Of late, I have helped more individuals and families with their private finances and manage debts through my business but also through community service organisations where I serve. Given the World financial crisis we are going through has its basis in individuals, business and Government borrowing what they can not afford to repay, it is timely for ALL to set their house in order.

The following information is based upon sound accounting principles and also what my wife and I have practiced all our lives. It is understood that not all of what follows applies to you and I have targeted my comments to that of a family or couple, but **I strongly suggest you read the Foundation Section** before perhaps leaping ahead to what may matter most to you. I do suggest though that it all be read and not just parts.

Foundation

We all have been reared knowing that financial security within the home and family adds to the feeling of security and well-being of each family member. We live in a time where there is a great degree of uncertainty in the market place and economies, so we need to exercise restraint, wisdom and care with the income we derive, how we spend that income and the assets we own. To not do so, will make us and our family members reactive to the whims and swings of the markets with little to no protection. The impact on individuals and families in these circumstances can be drastic and great unhappiness follows.

Needs and Wants

In all the decisions we make, especially when spending our hard earned money, the discerning between whether what we are buying is a “need” or a “want” becomes paramount. Consumer appetites are man made. Our “wants” are in saturable and can never be fully realised. If we are not careful, some is never enough. We have the best marketing departments using the science of colours, music, impulse buying and the like, all trying to rewire our thoughts and desires into buying their product. I am not criticising the availability of goods and service and personal choice, I am only concerned about our being able to use sound judgement in what we buy and having the strength and clarity of mind to exercise that judgement in the commercial world.

You see, too often we buy our “wants” and then struggle to meet our “needs”. Most especially when those “Needs” come in invoices that are not on the same rests as our pay. We all know in the calm of day, that we need to meet our needs first, then what is left can be apportioned to meet our wants. There are basic needs that include the substances of life - food, shelter and clothing but then we can extend these basics too far and they become wants. Please secure in your mind and budgets those NEEDS that come 1st in life, then add the “wants” to that list afterwards.

Develop and Live Within a Budget

We all have home budgets. Some are kept in note books, on spreadsheets and some by what is left in the Bank, Wallet and Purse. Budgeting and Financial Management need not be overly complicated or time consuming. There are 4 basic elements to a workable budget 1. Put aside for the Needs of Food & Clothing 2. Put aside for needs of home equity or rent and expenses of living such as power, transport, phone and other bills that are not paid each week 3. Put aside for insurances, health and emergency savings and 4. Savings and Holidays. More on this later.

Self Control & Pride

We have to develop the ability to control what we do with money. Sometimes we spend too much time and effort on making money and then waste that time and effort on how it is spent. Often it is how money is spent and not made is where the problems lie with those who are in a financial crisis. If we are not careful, instead of us ruling our money, its rules us and we try and find happiness in the store and the process of buying.

Pride is often lurking in the back ground when there is a lack of fiscal self control. Trying to “keep up with the Jones” or just not being able to start humbly and work up, wanting it all from the 1st purchase. Now I am not advocating that we all need to start sitting on milk crates like others may advise, but there needs to be a sound judgement in what we do and it not be tainted by pride and a lack of self control. You can not have a budget and live successfully with it if you do not have the self control to live by it and the pride to accept that sometimes we just cannot afford everything we “want”. There is nothing wrong with telling family members that affordability is sometimes an issue when purchases are put back or put on lay by.

Home Financial Budgets

Who Managers the Money

I remembering speaking with a couple soon to me married several years ago. They came into my office to get some advice and I asked the question “ Who is going to manage the money?”. They looked at each other and then back at me. No decision had been made.

Though all may have an equal input in the family finances and budgets, it generally falls to one person who has the responsibility to be the financial controller. They receive the monies, account for it, allocate & pay bills, save and bank etc. This does not mean that others do not have any rights as to the decisions and appropriations, but

usually only one has the joy of doing the fiscal work behind the scenes and sharing the state of the finances with whom else is part of it.

I have seen some couples work individual bank accounts whilst paying for joint expenses 50% each from their respective accounts and others pooling into a joint account. The latter is preferred for convenience where there is trust and confidence in all parties.

Budget Pointers

There are many types of family budgets. Here are some points to consider:

- Families need to adapt a budget that works for them. Useless setting a budget that is then ignored or passed over so often that it has little traction in the family.
- Family budgets need not be “set in cement” and can be manipulated as the needs arise.
- It is best that all income is accounted for and included in the budget. Even though you may have the “interest” earned allocated to the “Holiday Fund”. Include this in the budget. This is called zero based budgeting where all income is accounted for and appropriated to living expenses, savings, holidays etc.
- Accrue and save to meet future expenses. Tally up all the expenses for the year that come in outside of your pay rests(Car Rego and Insurance, Rates, Electricity, Health Insurance etc). Then divide this amount by the number of pay periods or rests. This then tells you what sum you need to set aside each pay to meet the bills when they come in. You may even put this sum into a different account so it stands out. It is good to start this account with a lump sum of money as some of the annual expenses may become payable before you have accrued enough money to meet them.
- Make sure you have some entertainment in your budget. Needs not to be large sums but we all want some pocket money and money for DVD Hire and the like. Also budget for clothing and health expenses. You know what you should include.
- You can open linked bank accounts to separate your money into however you choose to appropriate it or just one interest earning account that you keep a side record of how the balance is allocated. My wife has one account linked to our normal account that holds the bulk of our budgeted amounts and she keeps a record of how this is broken up. For example there may be \$8000 in the account is it is allocated to : Bills \$3K, Clothing \$500, Medical \$1K, Kids Education \$2K, Holidays \$1K, Bulk Food \$500.
- You can start a budget or restart a budget whenever. So start now.
- Share your budget with your family. Teaching your family members the principles of financial management is an ongoing responsibility. Involve them in setting and reaching financial goals, both personally on what they earn but also as a family. Teach them the principles of hard work, frugality and savings. As children mature, they should understand the family financial position, budget and investment goals. They can share in the responsibility of reaching these as a member of the family and maybe even contribute to them as agreed.

- Savings is an integral part of our budget. We need savings to provide security for the future.
- Be careful with Credit Cards and Savings Accounts. This paper is not designed to go into these topics in great depth, but credit cards are great for earning points on and convenience of payments but can also become an issue when convenience becomes a lack of self control and becomes indebtedness.
- I may be from the old school, but children need to learn that money does not come from a tree out the back, but it is earned through the toil and sacrifice of their parents. I believe that children need to earn their financial rewards also through appropriate toil and sacrifice whether it is chores around the house or be tied to educational outcomes. I think it is most fortunate when a child grows up with the principle that money is earned and is not free.
- Based upon appropriate teaching and individual experience and understanding, children should be encouraged to be responsible for their own financial decisions affecting their own money and suffer the consequences of unwise spending. Best to learn these lessons well in early life where the safety net of mum and dad can help them out.

Understand External Forces on Family Budgets

There are many external forces that impact on our budgets. Inflation or the increase in the costs of living. Seasonal costs like the costs of food during times when crops are destroyed. Interest rate increases and increases to fuel costs. Increases to the costs of electricity and council rates. Health issues with the family and the costs of dental care and pharmacy. All these erode our budgets hence the need to watch and prepare. The best way to prepare is to have savings and use a wise investment program.

Conclusion

These few points and suggestions are not intended to be all inclusive or exhaustive. Rather, it is hoped that a need has been brought to the surface that is worthy of your serious consideration and action. We all need to recognise and be aware of how to better manage the resources we have and it's not all about earning more.

Learning to live within our means is a continuing process. We all have different strengths and weaknesses so it's a process that also requires us to help and support each other in the family. It is a happy day when time and interest are working for you and not against you. Money is there for you to manage and not intended to manage you. If we are careless and selfish, we can end up in financial bondage that is unpleasant, unrelenting and the burdens associated thereto are very heavy to bear.

Please contact us here at Holzworth Law & Associates if you have any questions. Have also a look at our paper of DEBT CONTROL as this I am sure will be helpful.

Some interesting Weblinks :

<http://providentliving.org/content/display/0,11666,7418-1-4007-1,00.html>

http://providentliving.org/pfw/multimedia/files/pfw/pdf/88720_33293_OneForTheMoney_pdf.pdf