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Featured Articles

Saving your money is not the key to financial planning.

Key to Total Financial Planning...

- ***Cash Flow Statement***
- ***Balance Sheet***

Is Your Cash Flow and Balance Sheet Healthy?

Working out a cash flow statement or balance sheet needs no more than knowledge in elementary mathematics. But it requires you to conscientiously take note of all your daily and regular expenses so that you can account for your money.

Working out cash flow statement or balance sheet needs no more than primary school mathematics.

Working Out Your Monthly Cash Flow Statement

A Cash Flow Statement shows all your/family incomes (Inflows) and expenses (Outflows) and, hence, the Net Cash Flow.

To check on your monthly cash flow status, prepare the cash flow statement for any one month of the year. Yearly expenditure should be divided by 12 and added into the cash flow statement.

List down all the inflows (e.g. salary, employer CPF, rental income) and outflows such as savings and investment, insurance premium, car loan etc... for the month.

Following is a sample cash flow statement:

Managing the money, i.e. cash flow and balance sheet, is.

Monthly Cash Flow Statement	
INFLOWS	
Gross Salary	$4,000
Employer CPF	$580
Rental Income	$400
TOTAL INFLOWS	**$ 4,980**
OUTFLOWS	
Savings and Investment	$500
Insurance Premium	$500
Study loan repayments	$300
Tax	$150
Food	$300
Transportation	$100
Clothing/personal care	$100
Entertainment/vacations	$100
Parent	$500
Household expenses	$300
Credit card payments	$200
Mortgage loan	$500
Miscellaneous	$250
TOTAL OUTFLOWS	**$ 3,300**
NET INFLOW	**$2,180**

While maintaining a positive Net Inflow, where you earn more than you spend, is important, you should also check if you have adhered to the following guidelines that ensure better wealth management:

- Set aside at least 10% of your total inflows into monthly savings or investment.
- The total loan repayment, i.e. Debt Service Ratio, is less than 35% of your take home pay (total inflows minus the employer/employee CPF).
- If home mortgage loan is excluded, (i.e. non-mortgage Debt Service Ratio), the ratio should be less than 15%.

For savings or investment, it is advisable that some savings can be invested into endowment plan to earn a safe 3-5% interest per annum. Another portion can go into fixed regular investment into funds such as unit trust or Investment-Linked Funds. The dollar-cost-averaging effect will help you to build up a healthy accumulation fund towards your retirement.

For loan repayment, keeping the two debt service ratios below the recommended percentage ensure that you do not overspend on your credit limit and overstretch yourselves when pursuing your dream home.

Key to Cash Flow Management...

- ***Positive Net Inflow***
- ***>10% in Saving/Investment***
- ***Debt Service Ratio < 35%***
- ***Non-mortgage Debt Service Ratio < 15%***

Key to Balance Sheet...

- ***Positive Net Worth***
- ***3-6 months cash saving for emergency needs***
- ***>50% of Net Worth should be in investment***
- ***<50% in Total Liability***

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Working Out Your Personal/Family Balance Sheet

A personal or family balance sheet describes what you own (assets) versus what you owe (liability) and, hence, your net worth.

Net Worth = Total Assets – Total Liabilities

To create your balance sheet, list your assets and add them up. There are 3 components of assets,

- Cash/Near Cash - cash with high liquidity without losing capital upon conversion to cash such as bank saving and fixed deposit.
- Invested Assets – market value of any form of investments including retirement account
- Personal Use Asset – market value of personal/family assets such as home and car.

Next list and add up all your liabilities including everything you owe such as mortgage balances, loan balances and any other outstanding debt.

Subtract the Total Liabilities from the Total Assets and you have your Personal/Family Net Worth**.**

A sample balance sheet is shown below:

Personal/Family Balance Sheet			
ASSETS		**LIABILITIES**	
Cash/Near Cash		**Liabilities**	
Savings Account	$10,000	Car Loan Balance	$5,000
Fixed Deposit	$50,000	House Loan Balance	$340,000
Total Cash/Near Cash	**$60,000**		
Invested Assets			
Funds	$80,000		
ILP	$80,000		
CPF	$100,000		
Endowment Plan	$100,000		
Total Invested Assets	**$360,000**		
Personal Use Assets			
Car	$20,000		
House	$400,000		
Total Personal Use Assets	**$420,000**		
TOTAL ASSETS	**$840,000**	**TOTAL LIABILITIES**	**$345,000**
		NET WORTH	**$495,000**

If you have a positive net worth, where assets outweigh liabilities, well done! You are on your way to a healthy financial future. And what if you have negative net worth? Well, it simply means that you are living beyond your mean, owing more than you own. This is certainly undesirable and you should consider saving more and spending less on non essential items immediately.

Maintaining a positive net worth is, however, not the sole purpose of a balance sheet. Check through the following guidelines to determine if your balance sheet is indeed balanced.

- Ensure that you have 3-6 months of Cash/Near Cash reserve of your monthly expenditure/outflow shown in your Cash Flow Statement. This provides liquidity to your emergency needs, yet do not lock up too much fund in the low-yield savings accounts or fixed deposit.
- Your invested assets should form at least 50% of your net worth, so that your hard-earned is not eroded by the silent thief, i.e. inflation!
- Your total liability should be less than 50% of your total assets in your balance sheet.

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Analysing Your Cash Flow Statement and Balance Sheet

Once you have completed your monthly cash flow statement and balance sheet, check them against the abovementioned guidelines to see if you have a healthy financial plan.

Indicators	Figures as in the Example	Comments
Savings/Income Ratio > 10%	$500/$4980 = 10.04% > 10%	A healthy savings ratio as it is more than 10% of the monthly income.
Debt Service Ratio < 35%	($200+$300+$500)/ [($4000*0.8) + $400] = 27.78% < 35%	A positive indication of not overspending or taking up loan that is beyond your means.
Non-mortgage Debt Service Ratio < 15%	($200+$300)/ [($4000*0.8) + $400] = 13.89% < 15%	This means that one has not committed too much on mortgage loan.
3 to 6 months of Cash/Near Cash for Emergency Fund	$60,000/$2180 = 27.52 months > 6 months	The emergency fund that can last for 27 months of expenditure could be excessive. Setting $13, 000 of liquid cash (for 6 months) aside, the remaining $47, 000 could be used for some longer-term single premium endowment plan that earns more than 3% p.a. or in some funds in this depressed market (as of Mar 09).
Liability to Asset Ratio < 50%	$345,000/$840,000 = 41.07% < 50%	Overall, there is a healthy balance between liability and asset.

Conclusion

A cash flow statement and balance sheet is a snapshot of your finances status for a particular time frame. They need to be updated regularly to stay relevant and help you to make the right decision in the next big spending ticket. Hence, I recommended that you update the figures quarterly and also whenever there is a major change in life goals or financial commitment.

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Ginny Lim Gek Eng (Ms)

NTUC Income
Certified Financial Planner CFP®

Phone:
+6596837384

E-Mail :
Ginny.Lim@income.com.sg

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