**Family Budget and Cash Flow Report Explanation**

**Real World Personal Finance Software**

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Overview of the Budgeting and Cash Flow Reports

This text is to help you understand the overall concepts, and the technical details, of the family budgeting and cash flow projection reports that follow.

The data used to generate the reports came from a combination of our Fact Finders, your financial statements, assumptions, and estimates. These values change daily, and future levels of price inflation can’t be predicted, so there will always be a level of inaccuracy that can’t be avoided.

The personal budgeting reports have four major sections: Incomes, fixed expenses, variable expenses, and debt payments.

Fixed expenses are those that are relatively constant every month – like insurance premiums and cable TV bills. Variable expenses are those that vary greatly from month to month – like food, clothing, and entertainment. Debt payments show money going to repay loans. These sections display their monthly totals at the bottom.

Two parts of these reports are very important, and are usually overlooked with less sophisticated software programs. These are annual cash flow surpluses or deficits, and then replacement costs.

Replacement costs are a commonly overlooked part of family budgeting. It’s also the biggest reason why family budgets never seem to add up. In the reports, major items that need to be replaced or serviced periodically are accounted for on a monthly basis. Most families (and budgeting software) neglect to account for these, and then when mundane things happen, like $10,000 needs to be spent on a new roof, this could be disastrous for the family budget for years to come. So it’s critical to properly account and budget for all of these items on an ongoing basis.

If there is more money coming into the family budget than going out over a year, then this is called a surplus. If the family is spending more than what's coming in, then there is a deficit. Both are important to keep tabs on, but the trend is even more important if they persist year after year. Persistent surpluses should be put to work by investing for future goals, and deficits usually need to be stopped, one way or another, to prevent permanent loss of net worth (and/or paying usury credit card interest rates for extended periods of time).

The chart, *Snapshot of Major Expense Categories*, helps in understanding what major categories your money is going into.

The details are on the following pages. They are shown both for normal times, and if the breadwinner were to become disabled. Disability is a very real danger, so it needs to be accounted and planned for in a serious manner.

The section, *Budget Totals with Debt* shows how much money is needed to pay all expenses on an hourly (assuming a 40-hour work week), daily, weekly, monthly, and annual basis. The top section shows how much net income (take home paycheck – or net) is needed to pay for everything in the family budget. The bottom section displays how much is needed to pay for everything, including taxes. This is called “gross.”

The section below, *Budget Totals without Debt* displays the same information as above, but assuming all debt was paid off. This is important psychologically to see how things would be different if there were no debt payment to make anymore.

The section below, *Budget Category Percentages*, displays the percentages of the three major categories (fixed, variable, and debt). The middle and bottom sections display percentages spent on taxes in a few different formats.

In the next section, incomes are displayed both gross and net of taxes on an hourly, daily, weekly, monthly, and annual basis.

The next section, *Surplus or Deficit*, displays the current amount of annual surplus or deficit. If there is a surplus, then that means more after-tax money is coming into the family budget than is being spent. This should be put to use funding longer-term financial planning goals and objectives.

A deficit means that more money is being spent than is being contributed to the family’s budget. Prolonged or increasing deficits will eventually lead to financial ruin (unless there are significant assets available to tap from somewhere else to fund them all).

The next section displays how much in disability insurance is needed to generate enough money to fund the family’s budget assuming one, or both, breadwinners were disabled.

Hopefully, the graphs and charts are self-explanatory. The disability reports just display the same information as discussed above, but for future years (e.g., when retired). There are several that display results in different ways to provide information of value to most everyone.

### Additional Information

Budgeting and cash flow are the heart of the financial planning process.

Unless there is a large pool of financial assets that you can tap into at your pleasure; then over time, most everything else stems from the long-term balance between net-incomes and total expenses.

The report details very important information as it projects your current and future standard of living. It also reveals surpluses that can be put to productive uses, like funding vital long-term financial planning goals and objectives.

It also reveals the very dangerous effects of cash flow deficits. If so, expense items should be reduced ASAP to bring the family budget into balance.

The income sections include all sources of income that you told us about that help fund your family budget. Amounts from interest or mutual fund dividends that are reinvested are not shown here.

Note that some of the charts and graphs are “stacked.” This means that one item is just added on top of others. This way total amounts can be viewed easier. This can be modified you you’d like to see the results presented in a different way.

There are also many (miscellaneous) input areas in the budget software that can easily be added, or renamed, to help display information that makes more sense to you.

Also, the family budgeting software used can easily be modified, if you disagree with how some of the chart item categories are classified. For example, if you want to see pet expenses removed from the “home” category, and put into the “miscellaneous” or “entertainment” category, this can be done.

Last but sometimes not least, there is a section on the left side of the Variable Expenses input section of the budget program that can show the difference between how much you’ve actually spent on select items, compared to what you budgeted for, or forecasted. This is useful in determining how and why your personal budgets don’t add up over time.

Always keep in mind that in the real world, the #1 culprit on why there always seems to be not enough money, even when you’ve made and stuck to your budgets, is that you, or your financial planning software, did not account for replacement costs. This is one of the unique strengths of this software program, so great attention to detail when inputting replacement costs should be made.

If done properly, accounting for replacement costs will make it seem like you’ve made a mistake in your family budgeting, and that you magically have more money month-to-month to spend than you thought. Just don’t do that! This replacement money you’re accounting for needs to be saved up and held in reserve, so it can be used for its intended purposes when the needs arise.