



Manage your Money



Even non-accountants can—and should—be able to take control of their personal finances. Here are some simple tips to help you with your household budget. **BY BUGSY L. BONGCO**

As an accounting teacher for almost 20 years, I have often encountered negative reactions about accounting as a course. Many people think that it is best left to CPAs. Nothing can be farther from the truth. Everyone needs to know the basic principles of this discipline, if only to put order into their own personal finances. It may sound intimidating, but anyone with a calculator can do it!

Important! Do you have a sari-sari store or a sideline business? You should separate these transactions from your personal financial statements. People often mismanage their money because they do not keep separate records. Since they do not get a real picture of either how their businesses are doing or what their actual personal finances are, they are likely to make bad economic decisions.

Let's Start!

First, we need to divide our activities into three phases. These are:

Understanding
Planning
Monitoring

The understanding phase allows you to assess your financial condition and shows you the results of how you've

managed your resources. The first thing you need to learn is preparing your financial statements. This is very simple to do, and they are essential for good economic decisions (for example: are you saving enough? Do you need to cut down on expenses? Which ones?) Don't worry, you won't need to prepare complicated financial statements like those used by business enterprises. In this phase, you make two reports:

- A statement of your **assets and liabilities** as of a certain date (preferably the start of a month, such as July 1) that will show your financial condition
- A statement of **income and expense** (for a specific period such as a month (July 1 to 31) or a quarter or even a year) that will tell you how well you're managing your resources. Use the first table in this article to prepare your income and expense statement. You just need a calculator, and knowledge about where your money comes from and where it goes.

Important! It is necessary to have a fixed time period for these reports so it will be easy to compare and analyze the results of your efforts. This will prove especially important when monitoring your performance in the future.

Understanding Assets and Liabilities

Example of **assets** that you have

on hand and/or that you keep in the bank; short-term investments (such as a time deposit that you can terminate before its maturity date, or shares of stock that you can sell if you need cash); and long-term investments (those that you cannot quickly sell, like government bonds or a pension plan).

Example of liabilities are expenses that you have already incurred but have not yet paid (bills, credit card payments, etc.); current (those that are due within one year) and noncurrent liabilities (those that are payable after one year). A promise to pay for the future schooling of a relative or cellphone bills that you expect to incur in the future are not liabilities, so do not include them in this list. Rather, these are items that you should save for and therefore these will go into your budget, not in your statement of assets and liabilities.

In Debt?

Now examine the list of assets and liabilities that you prepared—do you have enough to pay off your debts when they mature? A good rule of thumb is to maintain a ratio of at least P1.50 of assets available to pay for each P1.00 of liabilities (in other words, you should have one and a half more assets than liabilities). By preparing this, you know how much cash is available to pay a

turing debt or how quickly you can dispose of an investment or other non-cash asset to pay your obligations. You will be prepared to pay a debt when it matures, avoiding late payment penalties and emotional stress.

Important! Know yourself. Think about how you currently manage your money; your strong and weak points; your limitations (for example, no other sources of additional income), and priorities (major house repairs, a new car, schooling for your children). Distinguish between what you need and what you want.

The Planning Stage

At this point, you should have prepared your financial statements. You will use this information about the past to try and predict what will happen in the future (a forecast). The tool that you will use is the budget (see the second table). Fill in the first column (“Budgeted”) with what you plan to spend or how much you believe you’ll earn in one month on the different categories (you can base the information on your income and expense statement). This is where your awareness of yourself will come in. Remember your strong and weak points, limitations and priorities. Consider these factors when you are preparing your budget. A budget that is too loose will be useless, but one that’s too strict is likely to fail, too.

Monitoring

Once you’ve prepared your budget, monitor your actual spending and earnings for a month and fill in the second column with the amount you actually earned and spent. When filling in the two columns, be sure to include income like interest from your bank account or a maturing plan. Similarly, make room for expected seasonal expenses like tuition fees in June, Christmas gifts in December, and even unforeseen events like medical emergencies.

Now compute the difference between the Budgeted and the Actual columns—this is the number you will put in the third column (“Variance”). Variance is favorable if the actual expense is less than the budgeted amount, and unfavorable if the actual expense is more than the budgeted amount. Favorable variance tells you that you are spending within your limit.

Note: Favorable variance (or spending below your budgeted amount) is NOT always good. Take the case of

food. If you’re buying food that’s less nutritious or in smaller quantities to save a few pesos, the household members may suffer because of it. Distinguish between being overly *kuripot* and saving wisely.

Final Words of Advice

To control your finances, remember this very handy formula:

$$\text{Income} - \text{Expenses} = \text{Savings} \quad (\text{NOT extra money for shopping})$$

Remember also that a budget must be flexible. This is why monitoring is impor-

tant. It allows you to fine-tune the budget and take corrective action if necessary, like seriously undertaking cost-cutting measures if you have a debt to pay.

It’s not hard to manage one’s personal finances. Just remember to pay attention to detail and be persistent in planning, monitoring and controlling your financial resources. Two basic rules to live by: live within your means and to save for the rainy day. If you keep these in mind and take advantage of accounting as a financial planning and control tool, financial health will not be just a dream but a reality. ★

TABLE 1

STATEMENT OF INCOME AND EXPENSES		
INCOME		
Fixed income (take home pay or other income with a fixed amount that you regularly receive)	xxx	
Variable income (any income that you regularly receive but which does not have a fixed amount)	xxx	
Total Income		xxx
EXPENSES		
Fixed expenses (those incurred regularly but whose amounts are fixed—example, rent, insurance premiums, etc.)	xxx	
Variable expenses (regular expenses with no fixed amounts such as food, medicine, clothing)	xxx	
Total expenses		(xxx)
Net income (or loss)		xxx

Note: This is not a budget or a forecast, so information that you should put in the form above should be actual and regular (that means recurring every month). While accuracy is best, if you do not have detailed records, an average or a reasonable estimate within a 3-6 month period will do. What is important is your estimates will let you make realistic decisions. You should also exclude past income and expenses—those that are not likely to recur in the future such as an unexpected bonus or a medical bill that will not probably be incurred again.

TABLE 2

MY BUDGET FOR THE MONTH			
	Budgeted	Actual	Variance
Income			
Less expenses			
Itemize your fixed expenses, like rent, bills, etc.			
Then make a forecast of your nonfixed expenses, like school tuition, medical bills, etc.			
Net income			



ABOUT THE WRITER

Bugsy L. Bongco is a Bacolod-based CPA-lawyer who taught college Accounting and Auditing full time until her retirement.