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Your Financial Health – Cash Flow Statements

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Where do you stand financially? Have your finances improved since last year? How much money did you spend last year, and on what? Are you using too much credit? If you have trouble answering these questions, you need to organize your records and measure your financial health. Tracking your financial health is as important to your well-being as taking care of your physical health. As part of the *Your Financial* Health series, this publication will give you a basic understanding of Cash Flow Statements, a crucial record for measuring the state of your financial health.

Cash Flow Statement Basics

A cash flow statement, also known as a statement of cash flows, shows what you earned and spent over a period of time (usually one month or one year). Cash flow statements can be used to develop a spending plan for an upcoming period; by looking over how you spent your money in the past, you can tell what categories to include in your spending plan and where you might want to make changes. Calculating these numbers can also be helpful in deciding how much should be allocated to savings. By comparing your income and expenses, you can determine the amount of money you have as a surplus (you are bringing in more money than you are spending) or a deficit (you are spending more money than you are bringing in).

This financial statement can be broken into three sections: income, expenses, and surplus or deficit. Income is made up of your cash inflows. These include all types of cash inflows, not just those that are taxable. Income can come from many sources, including salaries and wages, child support or alimony, interest and dividends, capital gains, rents from rental property, annuities, inheritance, financial gifts, and the proceeds of a new loan (if used to pay current expenses). **Appendix A** is a blank cash flow statement. You can enter the money you receive from various forms of income in the first section of the table.

Expenses are your cash outflows. There are three broad categories of expenses: fixed, flexible, and periodic. Periodic expenses are sometimes referred to as irregular, occasional, or seasonal expenses.

Fixed expenses are the spending plan categories for which you pay a set amount of money on a regular basis—often monthly. These obligations are usually enforced through a signed contract and include examples such as a lease or mortgage, certain insurances, student loans, and installment loan payments for cars or furniture. Fixed expenses are often top priority expenses which must be paid first when paychecks arrive. They also offer the least leeway for cutting back.

Flexible expenses, also known as variable expenses, are expenditures over which an individual has considerable control. Most households can find ways to save money by cutting back on one or more flexible expenses. Examples of expenses that may be flexible include food at home, meals out, utilities, transportation, clothing, personal care, household supplies, credit card payments, alcohol/cigarettes/lottery tickets, entertainment, and pets.

Periodic expenses are costs that you face infrequently or irregularly. Examples of periodic expenses include personal property/real estate taxes, some insurances, gifts, home furnishings, repairs, auto license/inspections, tuition/school expenses, and other miscellaneous items. Because of their irregularity, these expenses are easily overlooked during spending plan development. Therefore, a reserve fund is recommended for managing these expenses. You can use the Periodic Expenses Worksheet (Mountain and Jones, forthcoming) to determine the amount of money you should deposit in this reserve fund each month.

Track your expenses for a month to fill in the second section of **Appendix A**. Remember to record cash purchases as well as credit and debit purchases. Although there are examples mentioned in the expense categories above, there are no hard and fast rules as to which category your expenses belong in. You may start out by lumping things together and, as you become more familiar with the process, begin splitting categories so that you have more information for planning purposes. In other cases, your expenses may fit in a different category than someone else's. For instance, "childcare" could mean a fixed monthly payment for daycare or a flexible number of payments to a babysitter which changes based on how often the babysitter is needed. Your insurance premiums may be a fixed expense you pay monthly, or a periodic expense you pay annually. Format your cash flow statement to reflect your own situation.

Once you have determined your total income and total expenses for the month, you will be ready to calculate your net surplus or deficit, which is the difference between total income and total expenses. Knowing your net amount each month allows you to plan your savings and spending. If you have a net surplus (income minus expenses is greater than zero), you have extra money each month to put into savings or toward another goal. If you have a net deficit (income minus expenses is less than zero), you are spending more money than you make. In this case, you will have to try to cut your expenses; (Mountain and Jones, forthcoming) can help you create a spending plan.

Cash flow statements should be calculated on a regular basis. Use the two blank columns of **Appendix A** to create cash flow statements for two consecutive months. Comparing these records will show you how your surplus or deficit is changing over time.

Summary

Financial statements are the foundation of a financial plan; in order to plan for the future, you have to know where you are right now. A cash flow statement will show how you have managed your money over a period of time. You can compare cash flow statements for multiple periods to see how your income is changing over time. For information on how to interpret your cash flow statements and analyze your financial health, see *Your Financial Health – Interpreting Statements & Using Ratios*. Given an understanding of your current financial health, you can create the plans you need to reach your goals.

References

Mountain and Jones (forthcoming) *How to Make Your Money Go Further*. Virginia Cooperative Extension.

Appendix A – Cash Flow Statement

	Dates: __/__/__ -- __/__/__	Dates: __/__/__ -- __/__/__
Income		
Wages, salaries, tips	$	$
Child support/alimony	$	$
Social Security	$	$
Other	$	$
Total Income	=	=
Expenses		
Fixed expenses		
Housing	$	$
Loans	$	$
Savings contributions	$	$
Emergency fund contributions	$	$
Reserve fund contributions (periodic expenses)	$	$
Other		
Variable expenses		
Food (groceries)	$	$
Food (away from home)	$	$
Utilities	$	$
Telephone (home and cell)	$	$
Child care	$	$
Entertainment and recreation	$	$
Other	$	$
Total Expenses	=	=
Monthly Cash Flow (Income – Expenses)	$	$

NOTE: This is just one example. You may face different expenses, or your expenses may fall into different categories. Depending on your payment plan for your insurance, for instance, your premium could either be a fixed monthly expense or a periodic expense you pay annually.