

Financial Services

INCOME AND EXPENDITURE
ANALYSIS AND
RECOMMENDATIONS

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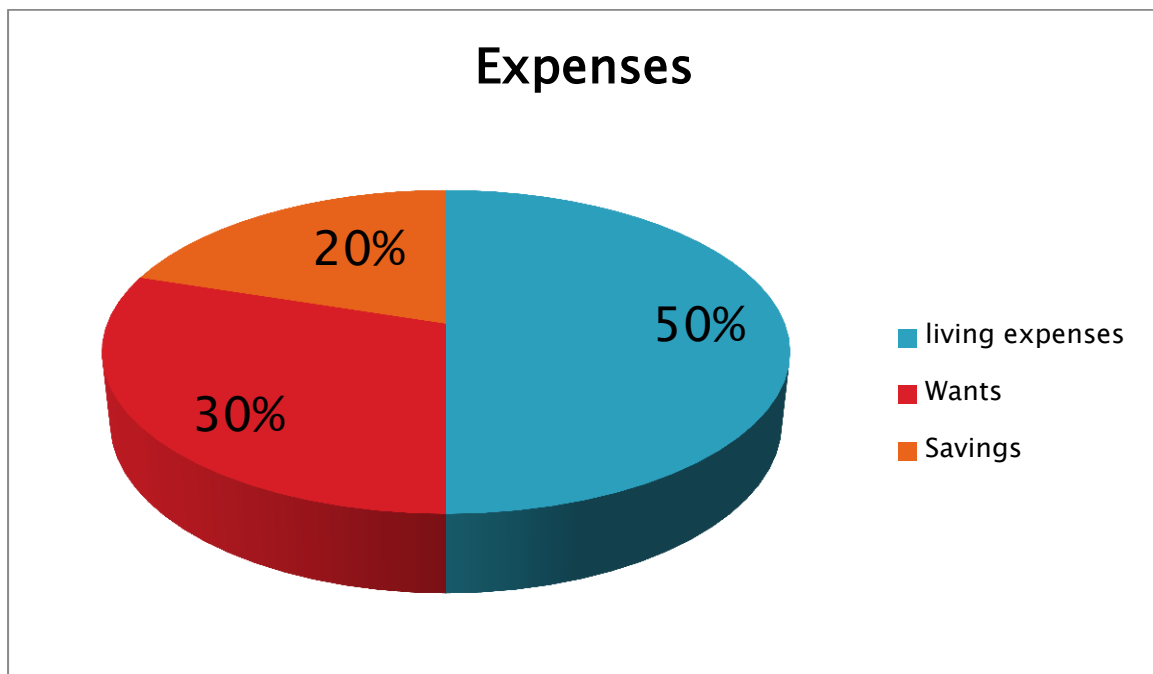
CLIENT:

OLIVIERES

General Background

Most people only realise the importance of sticking to budgets or having a budget in place after they have already spent all their income. I would like to first commend you for taking the first step towards better use of your income. With that said, it is important to treat any sort of income including salaries as if you are running a business. Therefore every cent needs to be accounted for because those cents which are taken for granted have a much impact in your income in a long term. Therefore the following report will be discussing how to allocate costs and mitigate certain costs to improve cash flow and disposable income.

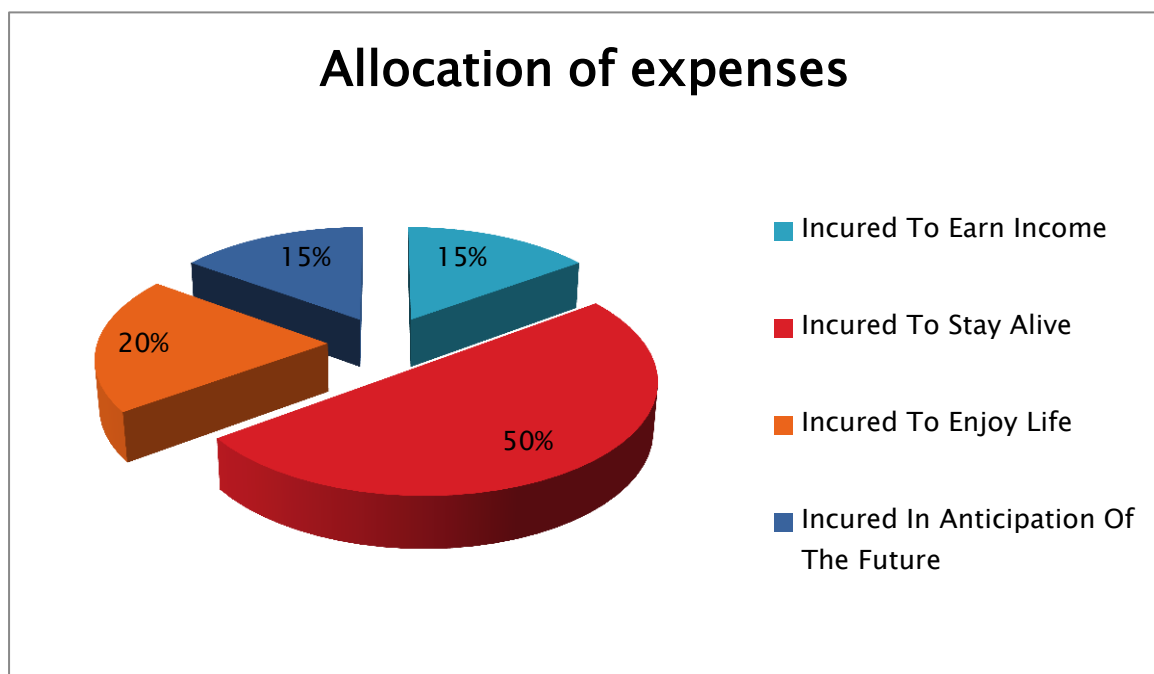
By now I'm sure you have heard about the generic 50/30/20 rule. Where in 50% is allocated to living expenses, 30% to all the wants and the 20% to savings but it doesn't specify what the differences are between living expenses and wants which in most cases it is actually the same so I would want you to follow a simple business approach I'm going to take you through just now.



The business Approach

In this approach, you need to first establish how your current Income is spent so that you will know where you stand in order to plan for the future based on this exercise. Therefore you need to have an objective or targets you need to achieve in each and every income cycle, in this case, for a salary it will be on a monthly basis.

The First thing I would like you to do is to classify all, by all I mean **ALL** your monthly expenses, even that coin you spend on a small sweet/candy when you are taking a walk. I will suggest that you take your grocery list and your previous receipts if you still have them and also the bank statement as it is the only statement that will show you the true reflection of where all your income goes to. Then you will need to classify them as either expenses you incur to earn your income (salary), expenses you incur to stay alive, expenses you incur to enjoy or for recreational purpose and expenses you incur in anticipation of the future.



Further Discussion of the nature expenses

1. Expenses incurred to earn income

These are expenses that it's a MUST for you to incur in order to earn a salary. These includes among others, fuel, transport, meals or lunch packs and snacks you consume while at work, in order for you to get the work done and go home for the entire month. These takes first preference as you don't want to see yourself without



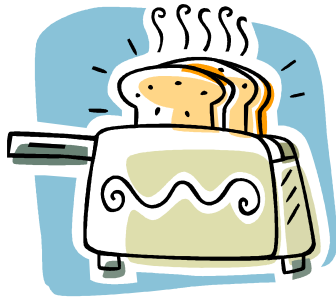
a job and income to allocate to other expenses. Therefore it is of utmost important to try to be as accurate as possible in this regard. After getting the total you need to inflate it by an average of 8%-10% to cater for unexpected expenses, for an example, having to use an alternative route due to road maintenance which will cost you more on fuel, or maybe one of the days you woke up late and couldn't prepare lunch pack and now you have to buy one at work or maybe your car tires gets a puncher and needs to be serviced on the spot, I'm sure you get the picture I'm trying to illustrate. Therefore I suggest you allocate 15-20% of your salary and then if there is surplus leftover, you will add it to your savings to be reallocated to the following month or spoil yourself.

2. Expenses incurred to stay alive

These are those expenses you cannot live without, like it or not you are bound to incur them, be it with your own money or borrowed money. In most cases they are classified as needs (i.e. accommodation, water, food, Electricity, etc.) hence they eat a big chunk of your income as illustrated on the chart above. Therefore you will have to allocate 50% of your income and if there is surplus income then you will keep it in your savings account. The best way to save on these expenses is to spend once, that is to avoid buying groceries 5 times in



a month in small portions or paying electricity in small portions, you have to look at prior month's expenditure and forecast for the upcoming month by inflating prices by 5%-8%. Buying groceries in bulks helps you to save because of quantity discounts stores offers.



You know you need for instance, bread for lunch packs for you and maybe kids so I suggest you calculate number of loafs you may need in a month and since bread can't be stored for a long time what you will have to do is to visit the store that you buy your daily bread from and pay in advance for all the loafs you may need for the month but only collect every other day on your way home from work. If you didn't collect the bread, it is still fine, all left over money will be carried forward to the next month and this may result in less money for bread and more saving for you. This will help you save on loafs you throw away after they got rot without being consumed and save you for those few days before month end where in most cases you find yourself broke. These are few adjustments you can make so more will be included in the recommendations below.

3. Expenses incurred for recreational purposes

This one should be the interesting one; you might as well start by playing your favourite song and dance a little bit before reading. One needs to have a balance between work and entertainment, so you would not want to see yourself waking up each and every day to work without having extra funds to enjoy being alive, have interesting times with friends and family. So you will need to allocate about 20% of



your income into it and make sure you stick to it because I know it is really easy to get tempted to spend a "little more" whenever you are enjoying yourself. Have a plan in place as to when and how much you will need for entertainment in a particular month.



So since this is part of entertainment a lot will have to be sacrificed to be able to go on holidays, vacations, host birthday celebrations, Christmas and new years' celebrations. So you have to plan well in advance, when you know you have to host a birthday in the upcoming month so that you can reduce random entertainment expenses so that when the birthday arrives you don't end up overspending beyond the funds allocated to entertainment for that month. Consider early bookings usually you get discounts when booking vacations 9-12 months earlier and that gives you the flexibility to pay overtime rather than having to pay full price at once.

4. Expenses incurred in anticipation of the future

These are among others, those expenses you know the day will come and you will have to have money by then to pay for them, including education fees for your children, saving for your dream house, legal issues and all other unexpected expenses that just jump into your salary from nowhere. In this regard I think 15% of your salary can cover these. It is important to enter into fixed contracts that are renewable maybe every 3 months to avoid having direct access to it any time. so further recommendations will be discussed below.

The Art/Secret of using a loan

I'm sure by now you have often heard people complaining that loans are a bad idea and never take a loan unless it's for something very important. The funny part comes when you ask them what the actual "very important" reasons to take a loan are, you will get to realise that most people don't know how to use a loan. So a loan should be used only if it is beneficial to you and not only beneficial to the providers. So I will be explaining how to determine if the loan is beneficial to you.

Let's say you want to take a loan to purchase a 3 bedroom apartment to rent out to people, for example the apartment costs you \$250 000. So the bank can offer you a loan on the terms that you will have to pay interest at 7% per annum. That will mean that every year you will have to pay \$17 500 ($\$250000 \times 7\%$). So you go and determine if you will be able to make those payments only from money you are making from these apartments. Let's say your tenants will pay \$1200 each per



month meaning in a year you will be able to collect rental income totalling to \$43 200($\$1200 \times 12 \times 3$) therefore after paying maintenance and other property related costs you can have about \$30000 in profits. You then divide the profits by total investment/loan that will give you **12%** ($\$30\ 000 // \$250\ 000$). So With that said you will realise that the percentage of income exceed the percentage you paying for loan(**7%**) meaning you are actually benefiting from the loan. So if you don't want the business anymore you can just sell the apartment and payback the loan and since properties gain in value you be left with excesses cash after repaying the loan. So you can use this strategy to earn passive income that you can also use to save for your dream home.

RECOMMENDATIONS

Most of the expenses have already been covered or addressed above so the following discussion will be focusing on the major expenses or those expenses I think need careful consideration:

- Consider using a pool of vehicle when going to work, this means finding people you work with that are from the same area where you stay, so what you do is to contribute and use one vehicle to go to work. If you are two or 3, first month they use yours, second month someone else and so on, that can save you a lot on transport cost.
- Food: like I already said consider buying groceries at once and in bulks, this will avoid the “I need to buy soap after work” but you end up buying soap, chocolate and cake which were not budgeted for.
- Expenses like education for kids, unexpected costs on rainy days including funerals, health related costs and life insurances. With these kind of expenses you should consider joining insurance companies that pays out in lump sums rather than having to cough out of your pockets when the rainy day comes because you might end up going into debts since we both know these are very expensive. The good thing is that no matter what they pay out, your children's future will be secured and if your kids get a scholarship it will be a bonus when the pay-out comes since it will be yours to spend elsewhere.

- Accommodation: If where you are staying you are renting, I would suggest that you consider going for a mortgage bond that you can pay over 20 years because you can find that in actual sense it is cheaper to pay for a bond than pay monthly rentals. The good thing is that when you want to move out you get to sell the house or property, repay the mortgage loan and all remaining funds is yours whereas in normal monthly rentals you just pack your bags and leave and get no money back from all the money you have been paying all the years you spent in the property.
- Loans; if you have loans from different institutions and owe different people with whom they charge interest, consider the so called debt consolidation. This means that you go to one bank and request a loan to repay all other loans and renegotiate payment terms with one bank/institution and this will include extending the period of payments. Benefits are that you will have more disposable money on a monthly basis and you will get a lower interest rate and therefore overall lower monthly payments leading to improved cash flows.
- And lastly NEVER forget to enjoy your life, you have all the reasons to smile, believe in yourself, tomorrow is not guaranteed so enjoy every second you still have here on earth.

