

Budgeting and working with money



Something to think about: The story of Robert T. Kiyosaki

“Money is one form of power. But what is more powerful is financial education.”

Robert had two fathers – a rich one and a poor one. One was highly educated and intelligent; the other one never finished school. Both men were successful in their career, having worked hard all their life. One of them struggled financially all his life. The other became one of the richest men in Hawaii.

Both men offered him advice, but they did not tell him the same things. For example, one dad would say, “The love of money is the root of all evil.” The other would say, “The lack of money is the root of all evil.” One would say, “Study hard so that you can find a good company to work for.” The other recommended, “Study hard so that you can find a good company to buy.” One of them encouraged talking about money at the dinner table. The other insisted that money should not be discussed over a meal. One said, “When it comes to money, play it safe, don’t take risks.” The other one said, “Learn to manage risk.” His poor dad would say, “Money doesn’t matter.” His rich dad always said, “Money is power.”

At a very young age, Robert learned that his poor dad was poor not because of the amount of money he earned, but because of his thoughts and actions. He chose to follow his rich dad’s advice, which he repeated over and over: “I don’t work for money, money works for me.”

Additional notes:

The first step: Be aware of money pitfalls

An important part of learning about money and becoming financially educated is being aware of the pitfalls and characteristics to avoid:

- *Thinking emotionally about money:* Most people base their financial decisions on the human emotions of fear and greed. The fear of being without money motivates them to work hard. Once they get the money, greed and desire make them think about all the wonderful things money can buy. This creates a devastating pattern of always trying to earn more in order to spend more. Their emotions do their thinking.
- *Ignorance:* Fear and greed are intensified by ignorance. Picture a donkey dragging a cart. Its owner is dangling a carrot just in front of the donkey's nose. The donkey's owner goes where he wants to go, but the donkey is chasing an illusion. Money is the carrot – people chase the illusion of a bigger house or car, thinking it will make them more impressive. If the donkey could see the whole picture, it might rethink its choice to chase the carrot.
- *Thinking more money will solve the problem:* People focus too much on money and not their greatest wealth, which is their education. Intelligence solves problems and produces money. Money without financial intelligence is money that is soon gone. It's not about how much money you make, it's about how much money you keep.



Reality check:

Celebrities who earn fortunes can also end up bankrupt.

- *Michael Jackson has become well-known for his bankruptcy in recent years. By the end of 2007 his Neverland Ranch, consisting of 2 800 acres of bumper cars, carousels and Ferris wheels, was a ghost town, while Jackson tries to save himself from bankruptcy. He has to pay off a loan of \$23 million.*
- *The legendary boxer Mike Tyson had various outrageous spending habits. His pet tigers accounted for \$8 000 of his debt and his extravagant lifestyle cost him \$400 000 every month.*
- *Derek Sanderson, a former American football star, signed a contract for \$2,65 million in 1972. He lost it all to alcoholism and bad investments.*
- *Singer Whitney Houston lost her New Jersey estate after she missed mortgage payments and taxes, as a result of her battle with drugs. She was forced to sell her clothes, old instruments and sound equipment to pay off her debt.*

Why is it important to know about budgeting?

- Budgeting plays an important role in good financial management, i.e. having control over your money.
- Budgeting enables you to know where your money goes and where you can cut back if you are overspending.
- This allows you to know your financial situation at all times and can therefore help you to avoid a financial crisis.
- A budget can help you to meet your obligations and achieve your financial goals.



Word wizard: What is a budget?

A budget is a financial plan for a specific time period. It involves keeping a balance between your income and your expenditure. The amount you spend depends on the lifestyle you choose or, in this case, the goals of your project and the funds you have available.

Getting to work: How to draw up a budget

The basic idea behind budgeting is that your expenditure (what you spend) should not be more than you income. To explain the basic principles, we first take a look at budgeting for an individual.

Follow these steps to draw up a budget:

- *Estimate your income for the budget period:* These include salaries and wages, family contributions, grants, etc.
- *Estimate your expenses:* Fixed expenses are expenses that do not change regularly, e.g. rent. Other personal expenses such as groceries, toiletries and transport can vary, but can still be under your control. It is very important to regularly set a little money aside for special, unplanned expenses, such as birthday gifts, fixing your car or a medical procedure (if you are not a member of a medical fund.)
- *Draw up a balance sheet:* This involves writing your income and expenses next to each other on a piece of paper to determine the difference. There is an example of a simple balance sheet on the next page.

Budgeting for a project

Now that you have a better understanding of basic budgeting, we can take a look at how to apply these principles to your community project. The specific advantages of budgeting for a project of any kind are that it helps you to implement your objectives, coordinate your activities, motivate your team and monitor and evaluate the performance of your project.

Stages in managing a project budget

- *Planning:* Set the objectives of the project and decide what it will mean in terms of the expected income/funding and expenses.
- *Monitoring:* Measure how the actual income and expenditure compare to the planned amounts.
- *Reviewing:* Evaluate how closely the objectives have been achieved. This takes place toward the end of the budget cycle. This is an opportunity to see if the budget could be improved.

Stages in planning a budget

- *Step one:* Make sure you have a clear plan of all the activities for the budgeted period. This way you can know exactly what to budget for.
- *Step two:* Find out all the possible areas of expenditure. These are the things you would have to spend money on, e.g. transport or equipment. Make sure you list every single item.
- *Step three:* Identify the different income items, e.g. funding or grants.
- *Step four:* The next step is to work out exactly how much money will be needed for each expenditure item and how much money will be received for each income item. This will show if there is enough money coming in to cover the amount that will be going out. If there is not enough, the expenses must be reduced or extra income must be found.
- *Step five:* Work out your cash flow budget based on the figures in the previous step. In this step you add a time element: You not only show *how much* money will come in and go out, you also show *when* the money will come in or go out. This is important because you have to make sure your income and expenses are coordinated. You cannot start spending money you don't have.

 **Additional notes:**



Here is an example of a project budget for a new playschool over a period of a month:

Income: Pink Panda Playschool	Expenditure: Pink Panda Playschool
Grant: R10 000	<p>Rent: R4 000</p> <p>Renovations: R1 000</p> <p>Staff:</p> <p>Salaries: R1 000</p> <p>Wages for part-time staff: R250</p> <p>Equipment:</p> <p>Furniture: R2 000</p> <p>Phone and computer: R1 000</p> <p>Toys and games: R500</p> <p>Groceries:</p> <p>Lunch for children: R1 000</p> <p>Lunch for staff: R250</p>
Total: R10 000	Total: R11 000
Difference in Rand:	R-1 000 (deficit of R1 000)



Something to think about: Take a minute to think about this budget. What is your first reaction to the budget? Is the deficit positive or negative? Should the owner/manager of Pink Panda Playschool rather shut down and find another project? Or can the budget be adapted?

Stages in monitoring a budget

- *Compare the budget with the actual income and expenses:* Make sure you have received and prepared all the necessary information to make the comparison. A comparison is normally prepared monthly. It is of specific importance at the start of your project.
- *Monitor the income and expenditure regularly:* You should always be able to identify the differences between the budget and the actual income and expenditure and be able to explain the reasons for this.



- *Take action:* If the actual income or expenditure is incorrect (and will not correct itself in the next period) you need to take action to balance the budget. This may include reducing costs or following up on an expected grant that has not been received. Ensure that the action is effective.

 **Additional notes:**

The D word: How to think and what to do about debt

If your community project is funded by a loan that you have to repay, there is the possibility that you will fall into debt, meaning you owe money to the person/institution that lent it to you. This happens when you have troubling repaying the money according to the conditions agreed upon.

How to deal with debt

Most people get into debt for the simple reason that they spend more than they earn, or more than the funds available to them. The logical conclusion is that debt can be prevented. Here are some tips on dealing with debt:

- If you have debt, the first step is to make a proactive decision to do something about it.
- The second step is to take responsibility for your debt. Do not make excuses for your financial situation and do not blame other people.
- The next step is to draw up a new realistic budget that makes provision for repaying your debt. By taking into account every factor of your finances, you can create a sound financial strategy.
- Fourthly, you have to stop making any more debt. The more debt you pile up, the longer it will take for you to become free of it.
- The fifth step is to make a list of all your debts. By gathering all the necessary information, you can prevent the risk of making promises that you are unable to keep.
- Next, you must develop a plan that will work for your situation.
- Decide by when you want to be out of debt. By putting a time limit on your plan, you have a practical goal to work towards.
- Investigate all the options available to you to get out of debt, for example increasing your monthly income; selling unwanted items; decreasing your monthly expenses; cutting manageable expenses; negotiating new repayment terms
- Pay off the small debts first to get them out of the way.
- Lastly, be patient! Don't become demotivated if you do not see immediate results. It takes time to get out of debt.

NOTE: Although debt is a serious issue, it is not the end of the world if it is managed correctly and solved as efficiently as possible. The worst thing you can do is to ignore your debt. Once you decide to do something about it and take action, you are already well on your way to financial recovery.



Being responsible: Saving money can save your life

- Setting aside some money every month can sometimes make the difference between a financial emergency being manageable or turning into a crisis. Also, cutting down on everyday expenses will make it easier for you to stay within your budget.
- Here are some saving tips that will put you in control of your money:
 - Keep your eyes open for sales and make sure you only buy what you normally buy – avoid impulsive buying.
 - Check for discount coupons or special offers.
 - Always shop with a well-planned list that is in line with your budget. Stick to the list!

Sustainability as a key feature

- Formulating the idea of your project and planning the initial steps to get it off the ground, is only the beginning. It is important that you make sure that your project is sustainable. That means your project must be able to be maintained over the long term.
- Sustainability includes the possibility of growth. Your project must be able to expand beyond the initial starting-out capacity.
- For your project to be sustainable, you will have to ensure a regular flow of financing. If, for example, you get a once-off donation at the start off your project, you will have to find another way to finance your project after you have used the donation. This is where your entrepreneurial skills (and lots of creativity) come in handy.
- The story on the next page will give you an idea how to make your project sustainable.

Sources

Actress Archives. 2007. *Whitney Houston auctions items to pay debt.*

<http://www.elizabeth.actressarchives.com>

Cammack, J. 2003. *Project Budgeting and Accounting* (BOND Guidance Notes). London: BOND

Fin24. 2007. *Take control of your finances.* <http://www.fin24.co.za/>

Fin24. 2007. *Vital steps to get out of debt.* <http://www.fin24.co.za/>

iafrica. 2007. *Don't ignore rising debt!*. <http://www.mymoney.iafrica.com>

Kiyosaki, R.T. 1998. *Rich dad, poor dad*. New York: Warner Books

Legalzoom Article Centre. [no date]. *How celebrities go bankrupt.* <http://www.legalzoom.com/>

Maritz, M. 2005. *Fundraising and proposal writing*. SA: Idasa

Thirty Mile Zone. 2007. *Jacko: Where have all the children gone?* <http://www.tnz.com/>

University of Port Elizabeth. 2006. *How to budget.* <http://www.upe.ac.za>