Chapter 2

Determining Your Financial Worth

"Be sure you know the condition of your flocks, give careful attention to your herds." – Proverb 27: 23.

Let us get to work. How do you tell how much you are worth or how wealthy you are at any given time? People have overtime used different methods or mechanisms to measure the level of their wealth. In the very past, people based their wealth on such things as the size of land that they owned; the herds of livestock they owned (cows, goats, camel etc.); some communities even looked at the number of wives a man had, among many other things that were deemed to be wealth. More recently, people look to the amount of money they have, (say bank account balances); elevated lifestyle and social approval among friends, families, social media-among others. These experiences should remind us the opening line in this book that if we become increasingly humble about how little we know, we become more eager to search (Sir John Templeton). This is because these are not the appropriate ways to accumulate and measure wealth for individuals and families.

According to the book of Proverbs 27:23, God wants us to keep good records of the money that He has entrusted us. To measure and account for wealth, businesses use financial statements, notably, the statement of financial position (hitherto balance sheet). This is according to International Accounting Standard 1 (IAS 1). However, IAS 1 will be replaced by International

Financial Reporting Standard 18 (IFRS 18) with effect from 1, January 2027. The accounting financial statements for businesses are outside the scope of this book. However, to draw a parallel for personal finance purposes, you can effectively account for your individual and family wealth by using records called, statement of net worth (personal balance sheet) and a cash flow statement (personal profit and loss statement). These records have been adapted and are explained below in a simplified way for ease of understanding and practical use at personal and family finance level.

Personal Balance Sheet

The Personal Balance Sheet or Statement of Net Worth is a record that allows you to measure and determine your financial worth at a particular point in time. It is a tabulation or a snapshot of the assets and liabilities that you have and the difference between the two is the net worth. It is very important to have a clear purview of your financial worth which helps you to understand the status of your financial health and avoid unpleasant surprises in life.

For illustration, the Statement of Net Worth can be presented in horizontal and vertical the formats as shown in figures 3 and 4 respectively.

Figure 3: Statement of Net Worth *(Horizontal Format)*

(Your Name)
Statement of Net Worth as of 31st December 20xx

ASSETS	KES		LIABILITIES	KES	
Liquid Assets (Cash & Equivalents)			**Investment loans**		
Cash in Hand	xxx		Loan to buy rental property	xxx	
Money Market Fund	xxx		Bank Loans	xxx	
Bank A/C Balance etc.	xxx		Other Debts	xxx	
Total Liquid Assets	**xxx**	A	**Total Investment Loans**	**xxx**	**F**
Investment Assets			**Personal liabilities (loans)**		
Pension Balances	xxx		Mortgages	xxx	
Unit Trust Funds	xxx		Car Loan	xxx	
Rental Property	xxx		Other Personal Debts	xxx	
SACCO Shares etc.	xxx		**Total Personal Loans**	**xxx**	**G**
Total Invested Assets	**xxx**	B			

ASSETS	KES		LIABILITIES	KES	
Personal Use Assets (PUA)			**TOTAL LIABILTIES**		H=F+G
Home	xxx				
Cars	xxx		**BANKER NET WORTH**	**xxx**	I=D-H
Furniture	xxx				
Household properties	xxx		**REAL NET WORTH**	**xxx**	J=E-H
Total Personal Use Assets	**xxx**	C			
TOTAL BANKER ASSETS	**xxx**	D=A+B+C	**LIABILITIES + BANKER NET WORTH**	**xxx**	K=H+I
TOTAL REAL ASSETS (without PUA)	**xxx**	E=D-C	**LIABILITIES + REAL NET WORTH**	**xxx**	L=H+J

Figure 4: Statement of Net Worth (Vertical Format)

(Your Name)
Statement of Net Worth as of 31st December 20xx

ASSETS	KES	
Liquid Assets (Cash & Equivalents)		
Cash in Hand	xxx	
Money Market Fund	xxx	
Bank A/C Balance etc.	xxx	
Total Liquid Assets	**xxx**	A
Investment Assets		
Pension Balances	xxx	
Unit Trust Funds	xxx	
Rental Property	xxx	
SACCO Shares etc.	xxx	
Total Invested Assets	**xxx**	B
Personal Use Assets (PUA)		
Home	xxx	
Cars	xxx	
Furniture	xxx	
Household properties	xxx	
Total Personal Use Assets	**xxx**	C
TOTAL BANKER ASSETS	**xxx**	D=A+B+C
TOTAL REAL ASSETS (without PUA)	**xxx**	E=D-C

ASSETS	KES	
LIABILITIES	**KES**	
Investment loans		
Loan to buy rental property	xxx	
Bank Loans	xxx	
Other Debts	xxx	
Total Investment Loans	**xxx**	**F**
Personal liabilities (loans)		
Mortgages	xxx	
Car Loan	xxx	
Other Personal Debts	xxx	
Total Personal Loans	**xxx**	**G**
TOTAL LIABILTIES		H=F+G
BANKER NET WORTH	**xxx**	I=D-H
REAL NET WORTH	**xxx**	J=E-H
LIABILITIES + BANKER NET WORTH	**xxx**	K=H+I
LIABILITIES + REAL NET WORTH	**xxx**	L=H+J

Note: You can download CGCents App from Play Store to enter your figures, view your net worth and the analysis of your financial situation.

Assets

For personal finance purposes, an asset is anything that you own that increases your income or net worth. This means that an asset is an item that you own that actually generates an income for you. For example, if you have a house that you rent out to earn rental income for you, this is an asset. Equally, if you have a motor vehicle that earns an income for you, say such as a taxi, then this is also an asset.

There are different classes of assets according to their liquidity and economic importance. Liquidity refers to the ease with which an asset converts to cash. Economic importance refers to the ability of the asset to generate an income such as a taxi or rental house. However, there are assets that do not generate income but we continually spend money on them every time, for example person-use car and residential house. These kind of non-income generating assets are actually "liabilities". Let us look at each class of assets.

Liquid Assets

The category of liquid assets comprises of cash and items that can easily be converted into cash. These assets are referred to as cash and cash equivalent because they can be converted into cash very quickly.

Examples of liquid assets are.

- Cash in hand or in mobile apps (e.g. M-pesa, Airtel Money, Equitel and others)
- Bank savings accounts
- Bank fixed deposit accounts
- Savings and Credit Co-operative Society (SACCO) accounts
- Treasury bills (91-182 days)
- Money market funds
- Merry Go Round / Table Banking.

There are obviously many other examples that would qualify as liquid assets.

Under this category, apart from cash in hand or in mobile apps, these assets earn some fixed income or interest. The main purpose for holding on these liquid assets is to preserve your money and ensure that it is readily available to meet your immediate to short term financial goals such as the basic living expenses and emergencies. Ideally, liquid assets should be increasing over time, and should be able to cover at least 3 to 6 months of your lifestyle or monthly expenses at any time. These assets are also quite useful in case of emergencies like the loss of a job, sudden breakdown of your car, delays in payment of salaries, uninsured medical incidences and sudden loss of life within the immediate family-and others. These assets will primarily ensure that you have some peace of mind and are not taken by surprise when emergencies strike.

In addition, there are people who are risk averse or conservative and may just want to put their money in this category of liquid assets as an investment, particularly, in higher interest earning assets here such as the Treasury Bills (91-182 days) and Money Market Funds.

Ideally, you should prioritise building the liquid assets before venturing to major investment assets.

Investment Assets

The category of investment assets comprises of those items that you own which generate a substantial amount of income for you. The goals for putting money in the investment assets are two-fold, namely, opportunity to:

- Earn higher fixed income, compared to liquid assets, particularly for those who are risk moderate, and;
- Grow money for those who are aggressive or very aggressive risk takers.

These investment assets should earn money to help you meet some medium to long-term financial goals like, starting to own a home, acquiring home furniture and appliances; financing a wedding, children's education, retirement income, personal use car, capital for running a business, legacy, philanthropy, charity and many other goals. Some examples of investment assets are the following:

- Treasury bills (364 days or 1 year)
- Treasury bonds
- Corporate bonds
- Bond funds
- Savings and Credit Co-operative Societies (SACCO) shares
- Real Estate Investment Trusts (REiTs)
- Rental property
- Farm land
- Stocks / shares (securities exchange)
- Private equity / shares in own business
- Equity funds
- Balanced funds
- Pension (Individual or umbrella) retirement scheme
- Investment group (*Chama*) balance.

Unfortunately, most people do not prioritise on acquiring the investment assets. Instead, they acquire debts to fund the acquisition of personal use assets, which is akin to putting the proverbial cat before the horse. Personally I was a victim of such misplaced priority when I took bank loans to buy a personal use car and to finance a business that was not well thought out.

Read on.

Personal Use Assets

These are items that people acquire mainly to gratify their egos and for social approval, especially if they are intended to show an elevated lifestyle. For them to make sense, these assets should be affordable and meet the desired use. Examples of personal use assets include:

- Personal or family residential house / home
- Personal cars
- Household furniture and properties.

This category of personal use assets can be referred to as "liabilities" in the sense that, yes, you own them, but they do not earn you any money. On the contrary, you spend money on them.

People often rush to borrow money to acquire these personal use assets as a result of conformity with norms including, influence by peers, family members, social media and others. To avoid this mistake, you should ideally defer your gratification and spend time to save and invest in investment assets that will generate the income that will enable you to acquire affordable personal use assets. Given, it is important that the personal use assets be affordable according to your income circumstances, or else you will find yourself in a vicious circle of debt for financing an elevated lifestyle.

Liabilities

A liability refers to something that you owe or have borrowed to finance the purchase or maintenance of an item. However, the meaning of 'liabilities' as used in accounting for business is a bit complex and out of the scope of this book.

When thinking about personal finance, a liability is something that is borrowed from, owed to, or obligated to someone else and needs to be paid back. The ready examples here are bank loans, house mortgages, credit cards and other bills incurred but not yet paid for such as school fees in arrears etc. A liability may also mean something that costs you money every time without a compensating income, for example a residential house or personal use car that incurs maintenance costs.

It is instructive to note that a liability is not necessarily a bad thing. For example, an individual may take out a mortgage to purchase a home or a loan to finance a business that is well managed. The key thing is; it must be affordable; you need a house that you can also afford but it must not be acquired in localities that are beyond your means.

For personal finance purposes, liabilities can be categorised into investment liabilities and personal liabilities.

Investment Liabilities

Investment liabilities or loans are acquired to finance investment opportunities. Some examples of investment liabilities include loans acquired to finance:

- Rental property
- Agricultural land
- A commercial venture.

These liabilities are also referred to as good debts in the sense that they are used to finance income generating ventures or appreciating assets. One caution with investment liabilities though: always ensure that you have the correct information about the investment, asset, or business venture that you are about to enter into or acquire before taking the debts. In the event that the investment does not succeed, you will still be required to pay the loan that may now turn to be a bad debt. Importantly, ensure that the returns from the venture or asset acquired are more than the cost of the debt.

Personal Liabilities

Personal liabilities or loans are acquired to finance personal use assets. They are often referred to as bad debts in a sense, because the personal use assets acquired do not generate an income and the benefits accruing from their use may be outweighed by the related costs of acquisition and maintenance.

Personal loans are acquired from formal to informal sources such as commercial banks, microfinance institutions, SACCOs, digital lenders, investment groups (*chama*), shopkeeper, family and friends. Some examples of personal liabilities are:

- Home mortgage
- Car loans
- Credit cards
- School loans
- Equipment Loans (Asset Financing).

Whereas some personal loans may be viable options like acquiring an affordable mortgage for residential home, ideally people should avoid personal liabilities and instead put money in investments that will earn them the money needed to buy the desired ***but affordable*** personal use assets.

Net Worth

Net worth (net wealth) is the measure or indicator of personal wealth. It is the difference between your assets and your liabilities. Determining your financial net worth will help you to make decisions and take corrective actions along your financial journey in order to avoid missing the intended destination. For example, a positive or increasing net worth can indicate that you have a good personal financial planning in place and therefore you need to keep increasing the assets. However, a decreasing or negative net worth shows that you have got weak personal financial affairs and there is a need to make changes or improvement on your personal finances. This book comes in handy for that purpose.

Net worth can be calculated in two different ways; banker's net worth or real net worth. Let me explain.

Banker's Net Worth

Banker's net worth is calculated as the total of liquid, investment and personal-use assets minus the total liabilities. This is not a very good measure of your net worth or wealth because it includes personal use assets. However, it is still important to know your banker's net worth because personal use assets can be attached to settle a personal loan that is in default.

Here you need to be careful because, a positive or increasing bankers net worth may be more as a result of personal use assets than investment assets which means that your financial health is in danger.

Real Net Worth

Real net worth is calculated as the total of liquid and investment assets minus total liabilities. This measure of net worth excludes personal use assets, and it is a better measure in determining your real net worth. A positive or increasing real net worth shows a clean bill of financial health in that, the value of investment assets is more than all your liabilities combined.

In conclusion, the appropriate strategy is to continue increasing your investment assets over your working life in order to ensure that you generate income to acquire personal use assets rather than taking personal loans to finance the same.

Personal Cash Flow Management

In business accounting, firms use the profit or loss and other comprehensive income statements to measure their financial performances (International Accounting Standard 1: IAS1), but that is outside the scope of this book. Again, to draw a parallel in personal finance, you can use a personal cash flow statement that is basically a record of income (cash inflows) and expenditure (cash out flows) to budget and measure how you and your family are actually doing financially. The cash flow statement shows the total income, total expenditure and the net cash flow or balance left (surplus or deficit) after spending. It can be presented in the format depicted in figure 5 below.

Income

Having an income is the basic foundational step towards your successful financial journey. There are various sources of income such as the following:

- Employment
- Professional practice such as for lawyers, accountants, doctors, engineers and others
- Inheritance

- Sports and celebrities
- Business venture
- Other forms of investment.

Sometimes your income may seem inadequate to meet your needs and wants. When found in such a circumstance, it's advisable to live within your means and endeavour to increase your ability to earn more money. Finding and improving income-generating opportunities will contribute in finding your financial success rather than just cutting down on your expenses. Increasing your ability to earn more money can take such forms as advancing own professional knowledge and skills for the market place, as well as, leveraging on your unique talents, hobbies, interest and networking to create income generating opportunities. This may be best illustrated by the hedgehog concept in Jim Collins book "Good to Great." The concept involves identifying and focusing on the thing (s) that you do best which also generate income for you while avoiding things that are not important or outside your area of expertise.

Figure 5: Cash Flow Statement *(Income & Expenditure)*

(Your Name)
Income & Expenditure (Cash Flow Statement)

Description	Expense Category (*1,2,3*)	Monthly	Annually
INCOME		CCY	CCY
Employment Income			
Salary (net)			
Bonus (net)			
Commission (net)			
Others net (specify)			
Sub-total		**0**	**0**
Passive Income			
Business Income (net)			
Farming (net)			
Property Rental Income (net)			
Others net (specify)			
Sub-total		**0**	**0**
Portfolio Income			
Interest			
Dividends			
Royalties			

Description	Expense Category (*1,2,3*)	Monthly	Annually
Others (specify) (net)			
Sub-total		**0**	**0**
Other Income			
Other net income (specify)			
Other net income (specify)			
Sub-total		**0**	**0**
TOTAL INCOME		**0**	**0**
EXPENDITURE			
Housing Expenses			
Rent			
House mortgage payment			
House buying instalments			
House improvement, repairs & maintenance			
Household items/furnishing			
Home association dues			
Property Rates			
Home/ house insurance premiums			
Others (Specify)			
Sub-total		**0**	**0**
Food &House Shopping Expenses			
Groceries & house shopping			
Eating out (breakfast, lunch, dinner)			
Others (Specify)			
Sub-total		**0**	**0**
Utilities Expenses			
Cooking gas			
Electricity			
Water			
Telephone (air time)			
Telephone (data)			
Trash/ garbage removal			
Others (Specify)			
Sub-total		**0**	**0**
Entertainment Expenses			
Television channel (DSTV etc.)			
Internet (WiFi)			

Description	Expense Category (*1,2,3*)	Monthly	Annually
Movies (theater, video, plays etc.)			
Entertaining friends / people			
Holidays (hotel, travel etc.)			
Others (Specify)			
Sub-total		**0**	**0**
Personal Care Expenses			
Clothes, shoes & other wears			
Dry cleaning			
Hair, nails, facials, massage, spa etc.			
Health program / gym			
Others (Specify)			
Sub-total		**0**	**0**
Membership Expenses			
Club membership entrance fees			
Club membership subscriptions			
Club minimum spend charges			
Professional body entrance fees			
Professional body subscriptions			
Others (Specify)			
Sub-total		**0**	**0**
Car & Transport Expenses			
Fuel			
Car insurance premiums			
Servicing, oil & lubricants			
Car tyres, batteries, repairs & maintenance			
Car wash and parking			
Taxi/Uber/Public Transport			
Other travel air & train tickets			
Others (Specify)			
Sub-total		**0**	**0**
Child Care Expenses			
Daycare			
Domestic help			
Others (Specify)			
Sub-total		**0**	**0**
Children Education Expenses			
Primary School			

Description	Expense Category (*1,2,3*)	Monthly	Annually
Secondary School			
College			
University			
Others (Specify)			
Sub-total		**0**	**0**
Personal Education Expenses			
Further Degree, Masters, PhD etc.			
Professional / short courses			
Seminars/ workshop etc.			
Books/ magazines			
Newspapers			
Others (Specify)			
Sub-total		**0**	**0**
Charitable Work Expenses			
Rotary			
Foundations			
Spiritual/tithe			
Community sponsorship (schools, health etc.)			
Events (Graduations, birthdays, anniversaries etc.)			
Others (Specify)			
Sub-total		**0**	**0**
Medical & Life Insurance Expenses			
Medical health insurance premiums			
Life insurance premiums			
Outpatient hospital cash charges			
Inpatient hospital cash charges			
Pharmacy / OTC medicine			
Others (Specify)			
Sub-total		**0**	**0**
Other Insurance Premiums			
Cash value insurance premiums			
Others (Specify)			
Sub-total		**0**	**0**
Savings & Investments			
Bank savings (emergency)			
Fixed deposit savings			
SACCO deposit savings			

Description	**Expense Category (*1,2,3*)**	**Monthly**	**Annually**
Treasury bills			
Money market fund savings			
Treasury bonds			
Corporate bonds			
Bond funds			
Real Estate Investment Trusts (REiTs)			
Stocks / shares (securities exchange)			
Equity funds			
Balanced funds			
Pension (Individual or umbrella retirement scheme) contributions			
SACCO shares			
Investment group contributions (*Chama*)			
Others (Specify)			
Sub-total		**0**	**0**
Services Expenses			
Bank transaction charges			
Mobile app transaction charges			
Tax filing services fees			
Legal services fees			
Financial services fees			
Others (Specify)			
Sub-total		**0**	**0**
Debt Payments			
Bank Loan installment			
Cooperative Loan Installment			
Car Loan Installment			
Employer loan Installment			
Credit card			
Others (Specify)			
Sub-total		**0**	**0**
Other expenditure items			
Others (Specify)			
Sub-total		**0**	**0**
New Financial Goals (not currently incurred)			
Others (Specify)			

Description	Expense Category (*1,2,3*)	Monthly	Annually
Sub-total		**0**	**0**
TOTAL EXPENDITURE		**0**	**0**
Net Cash Flow		**0**	**0**

Note: You can download CGCents App from Play Store to enter your figures, view your current spending pattern and analysis thereof.

Expenditure

The main reason people face financial challenges is not because of how much they earn, rather, it is the mistakes that they make with what they earn. It narrows, basically, to the spending habits. As already pointed out, one of the major mistakes people make is to spend more money than they earn. This means that they borrow or take debts to finance the extra expenditure. In other words, they spend money that they do not have. ***Do not spend more than you earn***. Spend less than your income and put the extra money left to savings and investments. These savings and investments will then earn additional income after which they will be "harvested" at the appropriate time to meet specific financial needs or goals. The following are practical steps that will help you to control your spending habits:

a. **Track your current spending pattern**

Track all your actual daily expenses into a monthly expenses record. The objective of this step is to enable you to find out where all your money goes and be able to identify where additional money will come from in order to meet your (lagging) financial goals such as debt payment, bill payments, savings, investments, among others. You can use various techniques for recording down your expenses, including:

- Writing daily purchases on a notebook and eventually tallying in an excel sheet;
- Using the monthly statements from your bank to track down your expenses for purchases or transactions made using debit or credit cards;
- Collecting receipts for daily purchases and tallying in an excel sheet;
- Download a spending tracker app on your mobile phone from Google Store. You can do this easily on CGCents App.

b. **Add emergency and financial goals to your spending list**

At the end of the month, examine your spending tracker and come up with your financial goals that you are not yet spending money on, either because you have not been aware of them or because you have been procrastinating. This could be because you are, waiting until you earn enough money or until you finish enjoying your life before embarking on them. For emergency fund, plan to save an equivalent of 3 - 6 months of your income. Set SMART financial goals by clearly stating what, when and monetary value of your goal. An example of a smart financial goal is: **To Buy a residential house in Kitengela in seven years from now at a cost of KES 7 million**.

Add emergency fund and other financial goals on your spending list. This can be easily done using CGCents App.

c. Categorise your items of expenditure

Using your spending tracker or list (inclusive of your financial goals), classify all of your items of expenditure in three columns and label them as follows: (1) essential expenses such as food, clothes, shelter; (2) important but not essential like safaris, hair care, gym etc.; and (3) not essential or important for example television, dining out, entertainment etc. Practically, savings for emergency is under category 1 and savings for other financial goals fall under category 2.

Note: To help you categorize your expenses when using the CGCents App, a "% of importance" scroll bar has been provided in the My Cash Flow tab to enable you measure how important an item of expenditure is to you between 0% to 100%. In this case, 0% means that the expense item is not essential or important; between 1%-99% means that the expense is less to most important; and 100% means that the expense is absolutely essential.

d. Prepare your budget

Prepare your budget by adjusting amounts on your spending tracker or list based on your priorities whether the item is **essential, important but not essential or not essential or important**. Here you need to make some deliberate decision to allocate or re-allocate money to the most important priorities for you. This will help you to plan and spend your money on what you value without feeling guilty and live a great fulfilled life. This step is also captured in the CGCents App under My Budget tab and you will be able to see a comparison of your current spending and adjusted or optimized budget.

e. Track actual monthly expenditure against the budget

Finally, keep tracking your actual monthly expenditure against the monthly budget. At the end of the year, you can make necessary changes as you prepare the adjusted budget for the following year. The CGCents App helps you to track your actual expenditure vs. budget.

Figure 6 is an illustration of a cash flow statement and personal budget that has been prepared using the practical steps above in excel. You will get the same results using the CGCents App.

Figure 6: Example of Personal Cash Flow Statement / Budget

(Your Name) PERSONAL BUDGET/ CASH FLOW STATEMENT									JAN	FEB	MAR	………	DEC	Budget for next YEAR	
CATEGORY	**DESCRIPTION**	**CURRENT KES P.M**	**CURRENT KES P.A**	**(1) Essential Expenses**	**(2) Important Expenses**	**(3) Not Essential / Important Expenses**	**BUDGET KES P.M**	**BUDGET KES P.A**	**ACTUAL**	**ACTUAL**	**ACTUAL**	**ACTUAL**	**ACTUAL**	**ADJUSTED BUDGET P.M**	**ADJUSTED BUDGET P.A**
A. INCOME (CASH INFLOW)															
EMPLOYMENT	Net Salary (net)	130,000	1,560,000				130,000	1,560,000							
	Bonus / Commission (net)	0	0												
	Earned Total	**130,000**	**1,560,000**				**130,000**	**1,560,000**							
PASSIVE	Business Income (net)	0	0												
	Property Rental Income (net)	0	0												
	Others (net)	0	0												
	TOTAL CASH INFLOWS	**130,000**	**1,560,000**				**130,000**	**1,560,000**							
B. EXPENDITURE (CASH OUTFLOW)															
HOUSEHOLD EXPENSES	Rent	25,000	300,000	300,000			25,000	300,000							
	Groceries & kitchen Supplies	10,000	120,000	120,000			10,000	120,000							
	Gas	3,000	36,000	36,000			3,000	36,000							
	Electricity	3,000	36,000	36,000			3,000	36,000							
	Water	1,200	14,400	14,400			1,200	14,400							

	Household Items/ Furnishings	10,000	120,000		120,000		5,000	60,000							
	Telephone Expenses	2,000	24,000	16,800		7,200	1,400	16,800							
	Sub-Total	**54,200**	**650,400**	**523,200**	**120,000**	**7,200**	**48,600**	**583,200**							
ENTERTAINMENT	DSTV/Cable TV/ Internet	2,700	32,400			**32,400**	2,700	32,400							
	Movies (theater, video, plays etc.)	700	8,400			**8,400**	200	2,400							
	Eating Out (Breakfast, Lunch, Dinner)	70,000	840,000			**840,000**	3,000	36,000							
	Vacation/Holidays	20,000	240,000			**240,000**	5,000	60,000							
	Sub-Total	**93,400**	**1,120,800**	**0**	**0**	**1,120,800**	**10,900**	**130,800**							
DEBTS	Debts repayment	3,000	15,000	**15,000**			30,000	360,000							
	Sub-Total	**3,000**	**15,000**	**15,000**	**0**	**0**	**30,000**	**360,000**							
SAVINGS & INVESTMENTS	Emergency Savings	**0**	**0**				15,000	180,000							
	Money Market Fund	**0**	**0**				15,000	180,000							
	SACCO Shares	**0**	**0**				5,000	60,000							
	SACCO contributions	**0**	**0**				5,000	60,000							
	Others	**0**	**0**												
	Sub-Total	**0**	**0**	**0**	**0**	**0**	**40,000**	**480,000**							
TOTAL OUTFLOWS		**150,600**	**1,786,200**	**538,200**	**120,000**	**1,128,000**	**129,500**	**1,554,000**							
NET CASH FLOW		**- 20,600**	**- 226,200**				**500**	**6,000**							

Let me explain the numbers in figure 6

In this example we use KES but you can use your preferred or local currency.

The current income is from employment only which is KES 130,000 per month (p.m.) or KES 1,560,000 per year (p.a.).

What about the expenditure?

Figure 6 shows all expenditure in categories such as household expenses, entertainment, debts as well as savings and investments (these are just examples and you can write down your own categories of expenses). At the bottom of the cash flow / budget statement shows the total current and budget outflows (spending) per month or per year.

How do you move numbers from the current spending to the budget?

For income, we assume that the current amount of KES 130,000 p.m. or KES 1,560,000 p.a. will not change and it will be the same for the budget. Also all income is essential, so put it 100% in your budget - KES 130,000 p.m. and KES 1,560,000 p.a. Of course if you expect an increase in your current salary or new passive income you would add that in the budget as well.

For the items of expenditure under each category, you need to classify each into the three columns in the cash flow / budget statement; (1) Essential Expenses, (2) Important Expenses, and (3) Not Essential or Important Expenses before moving or putting the well thought out numbers in the budget. Let us look at the first category, household expenses. Rent is the first item of expenditure here and rent is essential (100%) because we all need housing or shelter as a basic need. Therefore, you will put the current amount of annual rent KES 300,000 in the column (1) Essential Expenses. Next thing is to decide how much of this do you want to put in the budget. Here we assume that you will not be moving to new place and that your landlord will not increase your rent, so you put it all (100%) in the budget – KES 25,000 p.m. and KES 300,000 p.a. The same reasoning applies in budgeting for the items groceries and kitchen supplies, cooking gas, electricity, and water – all these are essential and therefore you put the current spending amount in the column (1) Essential Expenses and then move them to the budget 100%, no adjustments are made. However, notice that the current amount of expenditure for house items / furnishing KES 120,000 p.a. is put in column (2) Important Expenses. How much of this goes to the budget?

Since this item is just important and not essential, only 50% of the current spending goes to the budget, so KES 5,000 p.m. and KES 60,000 p.a. Telephone expense is the last item of expenditure in this category with a current spending of KES 24,000 p.a. Analysis of this expenditure reveals that KES 16,800 or 70% is essential, so put this portion in column (1) Essential Expenses and the balance of KES 7,200 or 30% is not necessary, so put it in column (3) Not Essential or Important Expenses. Therefore, only KES 16,800 p.a. that is essential goes to the budget and the savings of KES 7,200 can be re-allocated to cater for other essential or important budget items.

The above budgeting logic and process is applied in budgeting for all items of expenditure in the entertainment category. For the debts item under this category, the current spending or debt payment amount is KES 15,000 p.a. Next, this is classified as essential in column (1) because getting out of debts is crucial in our lives. To accelerate the settlement of the debt, KES 360,000 p.a. and KES 30,000 p.m. is then put in the budget. You will also notice that the extra amount of budget for this category comes from the savings in budgeting for household and entertainment expenses.

Looking at the savings and investments category of expenditure, there is no current amount of expenditure at all, zero! But from the savings made when budgeting for the other categories, savings and investments category has now been allocated a budget of KES 480,000 which has been re-allocated to the various savings and investments items or options.

Finally, as you can see at the bottom of the statement, the current total spending is KES 1,786,200 p.a. Out of this spending, only KES 538,200 is essential, KES 120,000 is important and KES 1,128,000 is not essential or important. As a result of the prudent budgeting, this amount of the not essential or important expenses has been re-allocated to achieve a total budget of KES 1,554,000 p.a. (compared to current spending of KES 1,786,200 p.a.) with a surplus of KES 6,000 p.a. Now the budget is ready for spending, the actual expenditure is put in respective actual monthly columns to track it, and necessary adjustments are made (*using the same budgeting logic and process*) at the end of the year when preparing the budget for the following year. This budgeting process is fully captured in CGCents App to give you the same results.