

THEME: FINANCIAL INTEGRITY PART 3

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Editor's Note: This is the third of a three-part series dealing with money matters. The first article addressed a common way people can find themselves in an insidious financial nightmare. The second article, Financial Integrity Part 2, I discussed some methods and practices you can incorporate to help strengthen your financial code-of-ethics. This third article, Financial Integrity Part 3, will discuss some methods that help strengthen a non-destructive financial code-of-ethics.

ACCOUNTING TERM: Budget

A budget is a list of probable expenses offset by expected income for a given period of time. A budget serves as a planning tool to determine whether there will be enough money to pay for expenses. If not, adjustments such as increasing income or decreasing expenses are made and conformed to, in order to meet established financial goals. A budget establishes a way to measure whether the financial goals are being met. A flexible budget makes allowance for changes that occur during the budget period. However, a budget should not be altered unless there is good reason. A budget must be a plan that all parties agree to, such as a spouse, partner, board of directors, management, or staff.

FEATURE ARTICLE: Taking Control – Using The Strategy Of The Four P's.

If you want to take control of your financial life, it helps tremendously to get organized. Sorry, but that's just the way it is. The guy who is organized seems to win. But, fear not, getting organized can be fun. Furthermore, it is merely planning and implementing the steps necessary to achieve an objective. What could be more fun and rewarding than successfully completing your goals?

If this is new to you, then you should start out with modest goals. This is because you are beginning a process of building trust between all the parts of yourself. Your inner team is learning how to communicate and collaborate with each other (see last month's newsletter). As you successfully complete your goals, your team confidence builds and you become accustomed to following through on what you say you are going to do.

When setting goals, you should first have a strategy or formula for success. I offer you one that I learned about thirty years ago. I call it the four P's:

- 1) Picture**
- 2) Plan**
- 3) Persevere**
- 4) Patience**

No doubt you are, to some extent, already familiar with each step of the formula. Here is how it works:

- 1) **Picture** – Before you can do anything, you see it in your mind’s eye whether you are conscious of it or not. When you reach for that glass of water, or walk across the room, you see yourself doing it before doing it. Therefore, when setting a goal, you are seeing the end result in your mind’s eye. How vividly you see the picture of achieving your goal determines the amount of psychic and emotional energy that is created. If your picture is clear, your desire to manifest that picture becomes proportionally stronger. Therefore, the first step in setting your goal is to see the picture of the end result vividly in your imagination. The more detail you can imagine, the clearer the vision.
- 2) **Plan** - How are you going to bridge the gap between where you are right now and your vision? What steps are you going to take? This is where the “plan” comes in. It takes effort and courage to actually work out the details of how you are going to accomplish your primary goal. When bridging the gap, it is wise to establish major steps. These steps are actually sub-goals. Obviously, each step must be completed to cross the bridge.

Here’s a tip: Reaching your final goal may seem daunting and you may not have a clear cut idea how it’s going to happen. Setting up a series of smaller steps that appear achievable to you can give you the confidence to keep going toward the end result.

So establish all the mini-steps that have to occur for you to reach your major steps. Once all these mini-steps have been identified, then the methods and means by which you can accomplish each task must be determined. Once this planning phase is completed, you can begin to implement your plan and revise it as required.

If you are like me, you may be using this system without even knowing it. For example, I’m always walking around looking at all the things I need to do around the house. Some things are obviously bigger projects than others. I recognize that they are there and for days, weeks, months, or even years I study this thing that has to be done. I think about it this way and that way, trying to come up with a plan that I can see myself doing. I weigh the cost, the physical effort, the skill level, the time factor, etc. But, finally one day when I “see” that it can be done within my parameters, that project is **done!** From that point on, it’s simply a matter of time. That is because I have seen the end result and the steps that lead to how it is going to happen. I know I can do it, so I “want” to do it. My desire to do it provides the energy I need to follow through and get the job done. That’s how it works with me, just ask my wife.

- 3) **Persevere** – Mistakes will be made. This is the test of sincerity. How badly did you want to achieve this goal? This is where the clarity of your vision becomes critical. This is where the rubber meets the road. The obstacles in your path may make you weary, or you can see them as a challenge that leads you one step closer to your goal. Self-discipline has received a lot of negative publicity in the past, but it is really a natural thing. When your vision is strong and your desire keen, it is easy to do whatever it takes to accomplish your goal. Why? Because you want to! It is not because someone else is making you do something you don't want to do.

- 4) **Patience** – If you celebrate too early or brag about what you are going to do, you will siphon off the energy built up through your vision, planning and perseverance. I'm not sure what the cause of this is, but I know the hollow feeling when it happens. It is unmistakable. You become so excited about what your goal is you want others to believe that you have accomplished it before you have accomplished it. You must be patient and only discuss your goal with those who can contribute to it. That's the rule. You have created a vessel with your goal and filled it with energy. Talking about it prematurely is tantamount to poking holes in the vessel.

When I talk about financial goals, I'm not just talking about saving or investing money. Our goals may be to acquire certain material things such as owning a decent car or buying a home for our family. For these things to happen, we have to get our finances in order. How that is going to happen is part of the plan.

Using the four P's to create a financial plan might go something like this:

Picture the lifestyle you would be comfortable living. What would that entail? House, cars, location, toys, etc.

Plan what it would take to afford that lifestyle. Would that require a better job? A second job? Would a better job require more education, training, etc.? How much would that cost? How long would it take? What opportunities are there? Is moving to a new location an option? This is the planning procedure of seeing all the in-between steps and organizing them into a sequence.

Persevere as required. Your plan may take years, but at least you are going somewhere. You have hope for a better future. You are not simply stuck in the same spot year after year. Nothing seems to come easy for most people. You may have to keep your nose to the grindstone. It's a lot easier to do that when you have a vision.

Patience is a virtue. There is no use telling everyone about how it's going to be. Celebrate real results. Celebrating prematurely is like perpetrating a fraud. If

things don't work out, you end up feeling embarrassed. Quietly and confidently go about your business. Share your goals with those that can add or support your efforts. Everyone knows the difference between a braggart and someone who accomplishes something.

Here is an example of how I used the four P's to buy a car in 1973:

At the time, I was working in a hospital as an administrative assistant. I was driving an old Ford station wagon a friend had given me. It was on its last leg. I had owned a Volkswagen a few years earlier and decided I wanted a new/used one. I knew how the engine sounded on a good running VW and set that as my main criteria. I wanted a canary yellow VW with a sunroof. I cut out a picture of one in a magazine and put it in my kitchen so I could see it every day. I went to car dealerships and sat inside the VW's visualizing myself driving one to and from work. I smelled the inside, and ran my hands over the body to help vivify my imagination. I had a detailed **picture** in my mind.

I knew that the VW I wanted probably cost around fifteen hundred dollars (Ah, the good old days). I only had one hundred. This could have been depressing, but I wanted the car. I could only save about one hundred a month, which would mean I would have to wait more than a year to afford the car. My plan then was to save this money each month and forgo some travel plans, new clothes, fancy dates, etc. I felt I was due for a raise and planned to ask for one. I set up my budget and constantly visualized driving that cute little VW, instead of the rattletrap old station wagon. This practice saved me from squandering my money. I had my **plan** going.

The old station wagon started breaking down. I didn't want to put more money into it. I rode the bus to work until I could find a friend to help fix it. I also caught rides with friends. Some of my clothes were wearing out. I needed new clothes for work. After wrestling with what to do, I decided that I would have to use some of my savings to buy work clothes. But, I bought an outfit that could be interchanged to make the most of the purchase. It seemed like an eternity waiting for my new car. I admit, there were moments when my negativity tried to defeat me. But, I **persevered**.

I had been very careful to discuss my goal only with those I thought might add to the energy. One person I told was a friend whose father worked for a car dealership. I had actually forgotten I had even talked to him. It had been four months since I set up my goal. One day, while at work, I received a phone call from a stranger who said, "I understand you would like to buy my Volkswagen." That was sort of shocking so I asked how he had found me. Apparently, he had gone to my friend's father's car dealership to trade in his VW on a new car. They told him he could get more for the VW by selling it to a private party. The father remembered I was in the market and made the referral. It turned out that he had a fairly new VW with just the right engine sounds, but it was red and didn't have a

sunroof. Hey, it was close enough. The price was right and the next day, I was driving my new/used VW. My **patience** paid off.

After this, I was a believer. I used the same strategy to find a better job, buy a house, start a business, and create an Internet accounting course. In short, I began a life long process of taking control of my financial life.

QUESTION: What Steps Are Involved In Setting Up A Budget?

I have a number of clients who are doing well and are making \$50,000 more a year than they did five years ago. However, they haven't noticed that they are any better off than before. The additional income usually translates into higher net profit and then, of course, higher taxes. The higher taxes get their attention. Then that same old question is asked, "If I made all that extra money, then where is it?" The only way to find out is to do a budget. You have to track the inflow and outflow of cash to see where it is going.

Convincing people to sit down one evening to prepare a budget is like trying to convince them to have their fingers cut off. The problem is that they are unable to get the first two P's going. They don't see clearly in their minds how important and beneficial the budget will be to them and they don't know how to begin the process of planning a budget. The following steps may help when setting up a budget, whether for business or personal use, or both:

Establish a budget purpose. (Picture) If your income is fixed, your goal may be to make sure your expenses do not exceed your income. Perhaps, your goal is to gradually increase income. Maybe it is to decrease expenses in certain categories so more spending will be available in other categories.

Identify your sources of income and each individual expense category. (Plan) If the budget is for a business, use the information on your financial statement. If it is personal, use your checkbook register.

Determine which income and expense categories are fixed and do not fluctuate, such as rent, loan payments, utilities, etc. List these categories under a heading called "Fixed". Next, determine categories whose amounts can be controlled such as telephone, office expense, groceries, etc. List these categories under a heading called "Variable" or "Controllable". You may want to add a category called "Contingencies" for those surprise expenses that seem to happen from time to time.

Record the monthly income and expenditures for each category based on past experience. (Plan) I highly recommend using a spreadsheet such as Excel or Quattro-Pro. For the expenditures that vary from month to month, use an average.

Analyze those categories that are controllable. (Plan) This is the hardest part of budgeting. Your effort here will determine whether your budget is realistic or not. If not, chances are you will not respect your numbers and eventually lose interest in the budgeting process. Take your time and try to figure out what expenditures are appropriate using the A-B-C Priority System as described in the Tip Of The Month below. Then record your results for each category.

Implement the budget. (Persevere) Record actual income and expenses next to the budgeted amounts on your spreadsheet. Calculate the variance to see whether you are over budget or under. Analyze why the differences occurred. Do they make sense? This is where you find the answer to the question, “Where did all my extra money go?”.

Stick to your budget. (Patience) A budget is only as good as your Will to follow it. But, you don’t have to become ridiculous about it. You should revise as required. Things change. Events occur that could not be foreseen when planning the budget. Be reluctantly flexible. Don’t change the budget willy-nilly or all will be lost. Once you see the value of a budget and develop the habit of budgeting, you will be amazed how you ever got along without it.

TIP: The A-B-C Priority System

Some of you may already be familiar with this excellent approach to planning. Most of us use some sort of “To Do” list. Once the list is made, a helpful next step is to prioritize the items on the list. One school of thought suggests using only three levels of priority, i.e., A-B-C. You can translate A-B-C to the three N’s, Necessary; Needed; and Nice. “A” means that the item is necessary in order to complete the job or goal. “B” means that an item needs to get completed or purchased but may not be necessary at this time. “C” means that an item would be nice if it got completed or was purchased, but it is not essential and you could probably live without it.

So, when planning your budget and determining whether to include certain expenditures, use the three N’s to help you decide. You will be impressed by how use of these criteria brings clarity and efficiency to your decision-making.

Remember to include your spouse, partner, or any other key person in the planning. Cooperation is essential and that usually only happens when you collaborate.

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