Money Matter$ - 13 January 2022

By Standard Chartered Bank

You've heard the phrase many times – living within your means. But do you really understand the concept? In many individual cases here and around the world, the dream of living well is a vision shared by many but to what levels of good living is expected? And are these expectations realistic? It is one matter to set targets but it is entirely different to what is realistically achievable.

Living within one's means, means to spend only what you have and not more than that. For example if you earn $1000 a month, ensure that your bills, day to day expenses like food and petrol and any loan repayments are well within the $1000. When you start accumulating spending habits that take you outside of your income range, it becomes risky.

Bear in mind also that out of your income you should also be setting aside money for savings. Without savings you may not have a safety net to help you in times of unexpected emergencies.

Assessing your spending habits

Look at your cash flow first. Take a piece of paper, pen and calculator too as we will be doing some very basic uncomplicated maths. Draw a table with 2 columns. In the first column, write down the title Total Income and in the second column write down Total Expenses.

Under total income, list out the amount of income you receive every month. Your salary; allowances if you receive them; rental, in case you have property that you are renting out; Interest earned or investment returns if you have any investments that are earning you regular returns; Things that bring in money on a regular basis.

In the second column under Total Expenses, list down all the bills and things you spend on every month. Things like rent if you are renting a house, electric, water, phone bills, internet service, television subscription, domestic help wages, petrol, food and groceries, insurance payments, children's school fees, etc.

Next add up your total income. Then add up your total expenses. Take your total income and minus off your total expenses. If you have a positive number after this, then you are doing alright. But if you are in negative, then steps should be taken to improve this. Remember that monthly savings have not been factored in yet and if you are having a negative balance there is no breathing room for you in case of emergencies or unexpected one-off bills.

Cutting down your spending – taking the first step

Many times people get caught up in a certain kind of lifestyle with their spending. New cars, new mobile phones, eating at expensive places – these spending habits should be kept in check every now and then because they can lead to accumulating bills which one may not be able to afford.

<u>Reduce your independence on credit</u> – Be it credit cards or any form loan, start adjusting your mind set and approach to such financial facilities. Loan products are extremely beneficial when used wisely. However, purchasing luxury items such mobile phones or electrical appliances which are not necessary on a loan facility may not be reasonable. Instead, set aside money every month and save up for the item that you desire.

<u>Know the difference between needs and wants</u> – Rice and vegetables are certainly needs.

But maybe fancy cakes and dining out may not be. An average family can spend up to $200 a week on groceries alone. Take the time to make out a list of things that you really need and stick to that list. This helps to ensure that you do not get side tracked and start buying things that you don't really need. While making your list, putting the approximate cost of the item next to it and then adding it up will make you realise how much you are going to spend and hence maybe jolt you into wondering if you really need the particular item. This will also make you more price conscious when you are at the shops.

Making short term sacrifices in exchange for long term benefits – Eventhough we may not want to, sometimes we may have to make some decisions which are hard but think of the benefits in the long run. Assess whether you really can afford the car loan that you are servicing now. Is the car too expensive for you? If so, switch to a cheaper car and reduce your monthly loan repayments. Although it is always nice to be able to drive a nice car, reality should take precedence. Ask for a temporary disconnection for your internet service as it is a luxury. Reduce your electricity bills by switching off lights and appliances around your house and reduce the use of air-conditioning where possible.

By taking the first few steps to understanding your financial situation, you are taking the first step to realizing your full financial potential.

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