1993

Guide to cash flow planning

American Association of Certified Public Accountants. Personal Financial Planning Division

Personal Financial Planning Division

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Guide to Cash Flow Planning

AICPA

American Institute of Certified Public Accountants

NOTICE TO READERS

The *Guide to Cash Flow Planning,* prepared by the Personal Financial Planning Cash Flow Planning Tax Force of the PFP Practice Subcommittee, has been published as the Cash Flow Planning module of the looseleaf AICPA *Personal Financial Planning Manual,* as it appears in the March 1993 update.

The nonauthoritative practice aids in this guide do not present positions but attempt to offer some alternatives that practitioners can choose from and then modify, if necessary, to meet their needs. They are intended as time-saving illustrations and tools. They are not intended to establish standards or preferred practices. Authoritative technical literature should be consulted in carrying out all engagements, including personal financial planning engagements.

PFP Cash Flow Planning Task Force

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Guide to Cash Flow Planning

American Institute of Certified Public Accountants

The AICPA *Personal Financial Planning Manual* can be ordered at (201) 938-3100 by becoming a member of the Personal Financial Planning Section.

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PREFACE

The Personal Financial Planning Division has prepared this nonauthoritative practice aid to assist certified public accountants in the efficient and competent delivery of personal financial planning services to their clients.

This practice aid is intended for practitioners who are developing comprehensive personal financial plans as well as those performing segmented planning and consultation engagements. This guide contains previously released material that was distributed as part of the March 1993 update to the *PFP Manual*.

CASH FLOW PLANNING

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3/300 CASH FLOW PLANNING

3/305 PURPOSE OF CASH FLOW PLANNING

.01 Clients seek cash flow planning services to obtain more effective control of their financial situations. For many, that means learning to manage their monthly cash flow better. Often, clients would like to save a larger portion of their income while maintaining their lifestyle. Some have critical cash flow problems: excessive debt, little or no savings, or significant fluctuations in cash inflow. Therefore, these clients have financial goals that relate specifically to cash flow planning.

.02 Because cash flow planning is often the means for funding a client's goals in other planning areas, it generally is the starting point of the planning process. The following chart describes the integration of cash flow planning with the other planning areas.

Planning Area	*Integration of Cash Flow Plan*
Retirement Planning	To provide periodic savings to be used to fund retirement To provide annual retirement income
Estate Planning	To determine the impact of the loss of cash flow from transfer of assets for estate planning purposes To provide cash income and liquidity for heirs after death
Education Planning	To provide for periodic savings to be used to fund future education costs To reduce annual cash flow used to directly fund education costs currently
Investment Planning	To determine annual amount available for investment To determine investment income to include in cash flow plan
Income Tax Planning	To provide for payment of income taxes To increase or reduce available cash flow based upon income tax plan
Risk Management	To provide for insurance costs or fund uninsured risks To establish cash reserves for emergencies

.03 Cash flow planning is also a concern for those at or nearing retirement. They may be contemplating future years of fixed income or finite resources. Retirees seek to control spending to avoid consuming assets too fast.

3/310 THE CPA'S ROLE IN CASH FLOW PLANNING

.01 The CPA can assist the client in preparing a cash flow plan. This process includes compiling historical financial information, identifying income sources and spending patterns, preparing prospective cash flow illustrations, developing a monitoring system, and comparing the illustrations to actual cash flow. The CPA is typically the most suitable person to perform these functions because of the following:

- Existing long term relationship with the client
- Experience and training in reading and interpreting the cash flow implications of financial statements and income tax returns
- Ability to integrate cash flow analysis with the other areas of personal financial planning

.02 Clients often have difficulty recognizing the effect that cash flow planning can have on the rest of their financial lives. Cash flow determines a person's current lifestyle and achievement of future goals. A CPA can help clients recognize the importance of cash flow planning. The planning process should include assisting clients to understand their spending habits, to identify their goals, and to achieve these goals to attain personal satisfaction. The CPA may take on the role of educator, adviser, or interpretor in these engagements and assist clients in this capacity.

.03 Cash flow planning may be the most nebulous of the planning areas because each client is unique and, therefore, no engagement is the same. Clients often have difficulty measuring the value of cash flow planning services performed. Therefore, the CPA should identify the precise services to be performed in this area and explain them to the client, clearly indicating whether the CPA is responsible for monitoring. Estimated fee ranges or quotes should be provided and client approval should be received prior to moving forward with the engagement. This process can reduce confusion about the client's and the CPA's objectives for the engagement.

3/315 IDENTIFICATION OF CLIENT SITUATIONS THAT MIGHT INDICATE THE NEED FOR CASH FLOW PLANNING

.01 There are many factors in the client's financial life that may indicate the need for cash flow planning. Clients who are having difficulty saving the amounts required to fund their goals are ideal candidates for cash flow planning. This may become apparent to the CPA during a periodic review of the other planning areas.

.02 Clients in the following life situations may benefit from cash flow planning:

- Anticipation of additional dependents (children or parents)
- Anticipation of marriage or divorce
- Receipt of inheritance, gift, or other windfall

- Anticipation of increased or decreased income
- Approaching retirement
- Fluctuations in business cash flow
- Concentration of assets in real estate
- Significant debt obligation approaching maturity
- Dissatisfaction with control of financial affairs
- Disagreement between spouses regarding finances

3/320 IDENTIFICATION OF CLIENT NEEDS AND RELATED PLANNING APPROACH

.01 To be successful in cash flow planning, the CPA needs to identify the client's cash flow planning needs and select an approach that will satisfy those needs. Many clients will need a comprehensive cash flow plan that may include detailing of all items of cash inflow and outflow and monitoring and evaluating compliance with the plan. Other clients will need a simplified cash flow plan. This plan may include only a cash management system to ensure that amounts needed to fund financial goals are invested. The CPA may start an engagement to consult with the client on cash flow management and later determine that it is necessary to prepare a comprehensive cash flow plan.

.02 The simplified approach may be appropriate where expenditure control and increased savings are goals set by the client and the client is motivated to make necessary changes.

.03 The comprehensive approach may be more suitable when the client needs to identify and control spending habits, have details available for monitoring, or has complex or irregular cash flow patterns.

.04 Under either approach, a single period or multiple periods could be projected depending on the degree of expected future changes and other circumstances of the engagement. Significant unanticipated changes may suggest a need to alter the cash flow projection and plan.

3/325 PSYCHOLOGICAL ASPECTS OF SPENDING

.01 People differ and these differences are reflected in their spending decisions. We do not find every family consuming the same goods and services as every other. Even if we classify families on the basis of income and life-style, few families in a classification spend incomes in precisely the same way.

.02 Everyone has their own set of personal economic priorities. If your client is a couple, you may find that their priorities are not the same. Economic priorities tend to dictate how spending decisions are made. With differing priorities, there may be conflict regarding how money should be spent. If the couple does not communicate well, they may want to put the CPA in the position of arbitrator, a role that requires special skills and extreme care.

.03 The CPA can help clients by informing them about why they may have different priorities. All human beings have differing needs. Satisfying these needs is the strongest known motivator of human action. Certainly everyone needs the basics of food, clothing, and shelter, but once those needs are satisfied, other needs demand attention. Some people have a high need for security, to be safe and secure from want and peril. Some have a need for affection, to feel they belong, to receive affection and love. Others are more concerned with esteem, they need prestige and the respect of others. And some primarily need to reach their own potential. Most individuals are motivated by a combination of these needs. Since money is a primary way to satisfy needs, conflicting needs can be the source of arguments. It is an unusual couple that has no conflict of needs. The important thing is for each couple to recognize their differences and to value them as a part of what makes each person unique. They can use this knowledge to avoid conflict in the future.

.04 It is important that there is agreement regarding spending priorities before a cash flow plan is developed. If a plan is developed based only on the priorities of one of the spouses, the plan may be subject to sabotage by the other spouse. A compromise must be reached and the couple must be committed to the spending priorities for a cash flow plan to achieve the desired results.

3/330 DEVELOPMENT OF A CASH FLOW PLAN

.01 A cash flow plan is the tool used to structure cash inflow and outflow to achieve the client's financial goals. The following discussion describes two methods of cash flow planning. Other methods exist. The CPA should select the method that will encourage the client to take appropriate action.

Simplified Cash Flow Plan

.02 A *simplified cash flow plan* is a cash management system with the objective of enabling the client to maximize opportunities to accumulate the required funds to reach the established goals. It does not involve setting up budgets for specific spending categories and it does not involve keeping track of every dime that is spent. It *does* give the client maximum flexibility to spend currently available funds as desired.

.03 The simplified cash flow plan works because the amount that is required to fund goals is set aside and invested first. Clients then live on what is left. It is the systematic setting aside of the amount to fund goals before current living expenses are met that allows clients to achieve their specified goals. Most people have good intentions to save each month. However, by the end of the month there rarely is any money left to save. A simplified cash flow plan forces clients to save for their goals first.

.04 Coordination of a Simplified Cash Flow Plan With Client Goals. Generally, clients will need to set aside some of their current cash flow to meet future goals. It may be easier for clients to save for a short term goal, such as a trip to Europe next summer, because the benefits of saving are easy to identify and gratification will come sooner. Unless they are highly motivated and have set up a system to accumulate savings, most clients will have a hard time accumulating amounts for long term goals.

.05 The role of the CPA is to assist clients in setting up accounting or other systems to manage their cash flows so that the appropriate amounts will be saved.

.06 Developing a Simplified Cash Flow Plan. When developing a simplified cash flow plan for each client, the CPA needs to keep in mind the old saying, "Out of sight, out of mind." It is important to create a system that sets aside and invests the amounts required to fund goals as soon as possible. Most people are less likely to invade their investments for current living expenses than they are to spend the cash in their pockets or the balances in their checkbooks. The following cash flow management system may work for some clients:

- All of a client's earnings are deposited in an interest bearing account, such as a money market mutual fund. This is called the collection account (sometimes referred to as the *automatic reinvestment account*) that is used to collect all incoming funds and make appropriate disbursements to other accounts. The collection account may also be a convenient place for the client to maintain a portion of any emergency reserve funds.
- Each month, or more often depending on the timing of the client's cash inflow, a set amount is transferred from the collection account to the client's investment account to fund the goals. A set amount is then transferred to a checking account to pay for living expenses. The balance in the collection account should be reviewed at least semi-annually and any excess funds transferred to the investment account.
- The amount transferred to the checking account is all that the client will have to spend for the month. The client should not live beyond this amount by using credit cards. In fact, if the client has a tendency to use credit cards to live beyond available means, the use of credit cards should be discouraged.

.07 If the client has significant expenses, such as vacations, car insurance, car license, real estate taxes, homeowner's insurance, or holiday gifts that would make a significant dent in monthly living expenses, there is a need to plan for these expenses. This can be done by setting up a side savings account. Amounts can be automatically transferred to this account to cover these expenses when they come due. This side savings account is similar to a mortgage escrow account. The CPA can assist the client in calculating the amount that needs to be transferred to this account each month.

.08 A side savings account may also be needed if the client is paid twice a month and mortgage or rent payments are too large to be absorbed by one-half of the living expense amount. A portion of the amount transferred to the checking account for the half of the month when the mortgage or rent payment is not due should be temporarily transferred to the side savings account until the payment is due. See Exhibit 3/300-1 for a flowchart that details this cash flow system.

.09 If a client is not able to meet current living expenses on the amount transferred to the living expense checking account, the CPA may need to consider the appropriateness of doing a comprehensive cash flow plan. If there is an excessive use of credit, this may also be an indication that a more comprehensive approach is required.

.10 A simplified cash flow plan is difficult to implement for clients with significant fluctuations in their cash inflow. For these clients, a comprehensive cash flow plan may be more appropriate because the CPA can evaluate the timing of the cash excesses or deficiencies.

.11 Monitoring a Simplified Cash Flow Plan. The CPA may be engaged to help clients monitor a cash flow plan. A simplified cash flow plan is monitored by reviewing the annual increase in the savings set aside to meet the goals. If clients continue to meet their savings goals, no action is required. However, many recommendations to save for future goals may include increasing the amounts saved each year by the rate of inflation. The CPA can assist clients in reevaluating the amount to be saved for the next year. If clients have not saved the required amounts, the CPA may need to determine why the system is failing and make suggestions to correct the problems. This may lead to the need for a comprehensive cash flow plan.

Comprehensive Cash Flow Plan

.12 A simplified cash flow plan will not meet the needs of many clients. In these cases the CPA will need to help clients put together a *comprehensive cash flow plan*. A comprehensive cash flow plan begins with an analysis of current cash flow. This cash flow is then projected into the future. If the cash inflow is not sufficient to meet the projected cash outflow, the CPA will need to work with the client to make adjustments in the cash flow plan to enable the client to meet the established objectives.

.13 Coordination of a Comprehensive Cash Flow Plan With Client Goals. The CPA must consider the client's short- and long-term goals when preparing a comprehensive cash flow plan. The cash outflow should include amounts transferred to investments to meet goals, such as education or retirement. Generally cash inflow will not include the earnings from these investments because they have been dedicated to meet the established goals. If a client's cash outflow exceeds the cash inflow, the CPA may want to reevaluate the amount required to fund the goals. Clients will need to reconsider their priorities to determine whether this amount can be reduced.

.14 Developing a Comprehensive Cash Flow Plan. Preparation of a comprehensive cash flow plan usually begins with the gathering of historical data. The CPA should develop a worksheet that lists the categories of cash inflow and outflow that clients can understand and effectively use on an ongoing basis. The desired level of detail (e.g., categorization of items, number of years of historical and prospective information to be gathered, accuracy of amounts) should be determined at the outset. When determining the level of detail required, the CPA must be sensitive to cost versus benefit and quantity versus quality. For example, the amount of historical data may be estimated based on judgement or knowledge, or it may be specifically identified from a client's records (for example, checkbook or tax returns). See exhibits 3/300-2 and 3/300-3 for sample cash flow planning workpapers.

.15 The historical information can be completed by the client prior to meeting with the CPA, or during a planning meeting. Alternatively, the client may be asked to start tracking receipts and disbursements for a test period using a computer or other methods to establish the historical base. The CPA should review the data with the client to develop an understanding of the historical cash flow. Identification of spending habits and recurring items will be useful in the preparation of the prospective cash flow plan.

.16 Tracking of cash flow items will often uncover patterns and inaccuracies (that is, a client may not realize the extent of spending in a particular area). The CPA may perform an analysis comparing several years' cash flows. Statistical standards, financial statements, and tax returns may also be used to enhance the analysis. The CPA should identify the client's spending patterns and assist the client to understand them. Once the patterns are identified and understood, strategies should be developed to change any undesirable patterns. For example, a client who has credit cards and experiences difficulty living within a budget might be persuaded to destroy the cards to avoid their use.

.17 Once an understanding of a client's cash flow and financial objectives is achieved, the development of the plan can begin. The following are among the assumptions that should be made in the process:

- Future cash inflow, e.g., salary income
- Rates of return and inflation
- Future cash outflow, including savings
- Nonrecurring expenditures
- Emergency fund

.18 The precision of the projected cash flow items is not necessarily as important as the fact that the item has been reviewed and an amount selected. The CPA should continue to stress this concept to clients.

.19 When the cash flow plan is completed, the cash inflow and outflow should be summarized and a net cash excess or deficiency determined. If a deficiency is projected, the CPA should assist the client in reworking the plan.

.20 The CPA and the client should address methods for increasing cash inflow or decreasing cash outflow. For example, a client's career change or an unemployed spouse returning to work can increase cash inflow. Generally, it is difficult to reduce certain expenses (for example, mortgage payments or food) without causing dramatic changes in a client's lifestyle. However, the CPA should explain to the client that all expenses are somewhat discretionary and can be reduced when appropriate. Occasionally goals must be adjusted if the client is to achieve them while maintaining an acceptable lifestyle.

.21 If an excess of cash is projected, the excess amounts should be determined. When the purpose of the cash planning engagement is to provide for the achievement of certain goals (for example, to increase annual savings by $5,000, or to acquire a vacation home), the planning process can be approached in reverse order. The plan will begin with the desired result and the expenditures will be pegged to achieve that result.

.22 **Monitoring a Comprehensive Cash Flow Plan.** The CPA may be engaged to help clients monitor a cash flow plan. Monitoring the results of a comprehensive cash flow plan can be more difficult than the development of the plan. The monitoring process is ongoing and clients may lose interest over time. However, the results of monitoring often determine the achievement of clients' objectives. The CPA should explain and stress the significance of monitoring the plan.

.23 The more convenient the cash monitoring system is, the more clients will want to use it. A system can be as extensive as a computerized general ledger system that categorizes items, provides budgets, prepares actual statements, and prints checks, or as simple as a manual checkbook. The CPA can assist clients in selecting the most effective system for them.

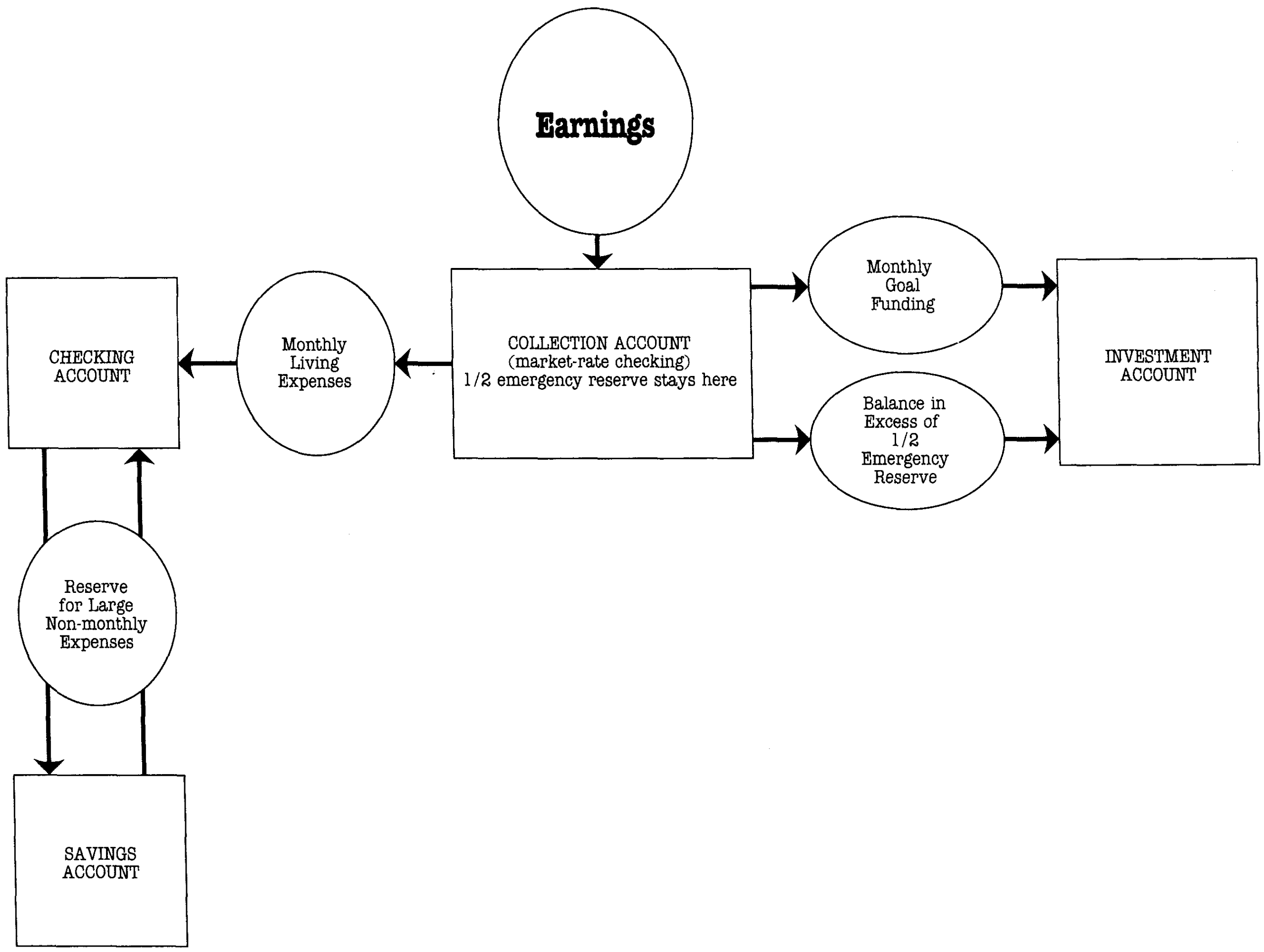
.24 Depending on the level of detail required, the system should be designed to account for all items (cash expenditures and checks). For example, credit card bills should be accounted for by type of expenditure rather than by credit card company. Because it may be difficult to track all cash expenditures, providing a working cash allowance for incidentals, coupled with checks or charge cards for other expenditures might be expedient.

.25 A worksheet should be compiled periodically (monthly or quarterly depending on clients' situations) to reflect actual cash flow, planned cash flow, and variances. The person responsible for preparing this worksheet might be the client, the CPA, or a bookkeeper. In many cases, computerizing the worksheet enhances its current usefulness and facilitates future modifications. Variances will indicate problem areas that should be reviewed and understood. The CPA may want to meet periodically with the client to evaluate the plan and the results.

.26 When variances regularly reappear within a category the projected amounts were probably incorrect. In these instances, the plan should be reworked immediately, to reflect more accurate estimates; otherwise the client's goals may not be achieved.

EXHIBIT 3/300-1

SAMPLE CASH FLOW MANAGEMENT SYSTEM



Source: Kristianne Blake and Kaycee W. Krysty, *Stop Fighting About Money and Start Making It Work for You*, Boston Books, 1989. Used with permission.

EXHIBIT 3/300-2

SHORT DATA-GATHERING FORM
CASH FLOW PLAN
[Monthly ( ) or Annual ( )]

Objective: To calculate cash flow available for savings and investment (a) according to the client's original estimate, and (b) after incorporating financial planning suggestions that affect cash flow.

Name ______________________________ Date ____________

Cash Inflow	**Original Estimate**	**Revised Estimate**
Income from Employment	$ ________	$ ________
Other Cash Inflows	________	________
Total Cash Inflow	$ ________	$ ________
Cash Outflow		
Housing	________	________
Food	________	________
Clothing	________	________
Transportation	________	________
Education	________	________
Taxes	________	________
Insurance	________	________
Medical	________	________
Debt Repayment	________	________
Entertainment and Recreation	________	________
Other________	________	________
Total Cash Outflow	(________)	(________)
Total Cash Inflow	$ ________	$ ________
Total Cash Outflow	(________)	(________)
Cash Flow Available for Savings or Investment	$________	$________

EXHIBIT 3/300-3

LONG DATA-GATHERING FORM
CASH FLOW PLAN
[Monthly ( ) or Annual ( )]

Objective: To calculate cash flow available for savings and investment (a) according to the client's original estimate and (b) after incorporating financial planning suggestions that affect cash flow.

Name ____________________ Date __________

Cash Inflow	**Original Estimate**	**Revised Estimate**
Salary/Business	$	$
Interest		
Dividends		
Net rentals		
Other 1		
Other 2		
Total Funds	$	$
Less		
Federal tax		
Other tax		
(city/state)		
FICA tax		
Business expenses		
IRA/Keogh/401(k)		
Total Deductions	( )	( )
Net cash inflow	$	$

Cash Outflow	**Original Estimate**	**Revised Estimate**
Automobile		
Payments		
Gas and oil		
Insurance		
License		
Taxes		
Maintenance		
Replacement		
Other		
Total Automobile	$	$
Clothing	$	$
Debt Repayments (other than auto or mortgage)		
Credit cards		
Investment debt		
Other short term		
Other long term		
Total Debt	$	$

(Continued)

Expenses	Original Estimate	Revised Estimate
Entertainment and Recreation		
Entertainment	______	______
Recreation	______	______
Dining out	______	______
Babysitting	______	______
Vacation	______	______
Other trips	______	______
Other	______	______
Total Entertainment and Recreation	$______	$______
Food	$______	$______
Housing		
Mortgage or rent	______	______
Insurance	______	______
Taxes	______	______
Utilities	______	______
Garden and landscape	______	______
Telephone	______	______
Maintenance	______	______
Other	______	$______
Total Housing	$______	$______

Expenses	Original Estimate	Revised Estimate
Insurance		
Life	______	______
Personal Liability	______	______
Disability	______	______
Other	______	______
Total Insurance	$______	$______
Medical		
Insurance	______	______
Doctor	______	______
Dentist	______	______
Drugs	______	______
Other	______	______
Total Medical	$______	$______

Expenses	**Original Estimate**	**Revised Estimate**
Miscellaneous		
Toiletry/Cosmetics	______	______
Beautician, Barber	______	______
Laundry	______	______
Allowances	______	______
Lunches	______	______
Subscriptions	______	______
Gifts	______	______
Education	______	______
Contributions	______	______
Other	______	______
Total Miscellaneous	$______	$______
Net Cash Inflow	$______	$______
Total Cash Outflow	$(______)	$(______)
Funds Available for Investment and Savings	$______	$______

Expenses	**Original Estimate**	**Revised Estimate**
Total Expenses		
Automobile	$______	$______
Clothing	______	______
Debt Payments	______	______
Entertainment and Recreation	______	______
Food	______	______
Housing	______	______
Insurance	______	______
Medical	______	______
Miscellaneous	______	______
Total Cash Outflow	$______	$______

EXHIBIT 3/300-4

ACCOUNTANT'S REPORT — INTERNAL USE CASH FLOW PLAN

ACCOUNTANT'S REPORT

Mr. and Mrs. John Doe
City, State

Dear Mr. and Mrs. Doe:

We are pleased to have the opportunity to assist you in formulating your cash flow plan. In accordance with the professional standards that apply to our practice, we have included this accountant's report to describe the procedures performed and limitations associated with the financial data and advice in the financial plan.

Prospective Presentations

The accompanying projected cash flow plan was prepared solely to help you develop your personal financial plan. Accordingly, it may contain departures from AICPA presentation guidelines and should not be used to obtain credit or for any purpose other than developing your plan. We have not compiled or examined the projected cash flow plan and express no assurance on it. Furthermore, future events may cause material differences between the projected and actual results.

Other Limitations

[Add significant assumptions and limitations on the usefulness of the presentations as dictated by the nature of the engagement and other circumstances. See, for example, the following:

- AICPA. *AICPA Guide for Prospective Financial Information.* New York: AICPA, 1993, chapters 8, 22, and 23.
- ___. *Personal Financial Statements Guide.* 2d ed., revised. New York: AICPA, chapter 5.
- ___. *AICPA Personal Financial Planning Manual.* New York: AICPA, 1993, vol. 1, secs. 1/930–1/950.
- *Guide to Compilation and Review Engagements.* 14th ed. Fort Worth, TX: Practitioners Publishing House, 1992, vol. 3, sec. 1500 et. seq.
- *HBJ Miller Compilation and Review Guide 1992.* Orlando, FL: Harcourt Brace Jovanovich, vol. 1, sec. 55 et seq.]

Sincerely,

(Firm's Signature)

May 15, 19..

EXHIBIT 3/300-5

SAMPLE MEMO TO FILES — SIMPLIFIED CASH FLOW PLAN

To: File - Roberts
Date: August 8, 1991
Re: Meeting on August 7, 1991

Today, I met with Bob and Mary Roberts to discuss their cash flow management. They are having a difficult time saving money for their retirement and for Steven's college education. I discussed with them the possibility of setting up a cash management system that will help them to start saving. They are going to rearrange their bank accounts with their current bank, and will open an interest bearing account. Bob and Mary will direct their respective employers to deposit their paychecks to this account. We had previously calculated that they need to save $540 each month toward their retirement and $476 each month for Steven's education. The amount available for their current living expenses was calculated as follows:

Bob and Mary Combined Monthly Gross Pay		$6,400
Taxes and Other Deductions	$(1,572)	
Amount Required to Fund Goals	(1,016)	(2,588)
Amount Available Monthly for Living Expenses		$3,812

Bob and Mary will arrange with the bank to have $1,906 transferred to their checking account on the 1st and 15th of each month. They have agreed to try to confine their living expenses to this amount for three months to see how it works. We have scheduled a meeting for December 5th to review the situation. They will bring their bank and credit card statements so we can evaluate their progress. I have emphasized that they should not increase their credit card balances to supplement their current living expenses.

EXHIBIT 3/300-6

SAMPLE COMPREHENSIVE CASH FLOW PLAN

Client:	Sam Smith	Sally Smith
Occupation:	Jr. Partner, Law Firm	Real Estate Broker
Dependents:	John Smith (son) Age 11	

Objectives:

1. Maintain current lifestyle with fixed draws from Sam's law practice.
2. Allocate additional income earned by Sally from real estate sales and from Sam's annual bonus to savings for John's college education ($5,000 per year desired) and for a new home. Sam and Sally anticipate the new home will require a downpayment of $20,000 (in addition to the rollover of equity from their present home) and an annual mortgage payment of $24,000.

		Plan	Actual
Annual Sources of Funds			
Fixed Income			
Draws from Law Firm	$48,000		
Interest Income	2,500		
Total Fixed Income		$50,500	
Variable Income			
Projected Bonus - Sam	$25,000		
Projected Bonus - Sally	20,000		
Total Variable Income		45,000	
Total Sources of Funds		$95,500	
Annual Uses of Funds			
Fixed Expenses			
Taxes	$14,000		
Mortgage Payments	15,000		
Real Estate Taxes	1,800		
Homeowners Insurance	100		
Food	4,000		
Auto Loan Payments	3,000		
Gas, Oil, Maint.	1,800		
Auto Insurance	700		
Utilities	1,200		
Telephone	800		
Medical (Non-Reimb.)	800		
IRA Contribution	2,000		
Entertainment/Spending Money/Gifts	5,300		
Total Fixed Expenses		$50,500	
Variable Expenses			
Taxes	$15,000		
Vacations	3,000		
Contributions	1,000		
Clothing	3,000		
Savings - John's College	5,000		
Home Improvements	5,000		
Savings - New Home	13,000		
Total Variable Expenses		45,000	
Total Expenditures		$95,500	

SAMPLE CASH FLOW PLAN DISCUSSION LETTER

May 8, 1991

Mr. and Mrs. Sam Smith
123 Planning Street
Anytown, U.S.A. 99999

Dear Mr. and Mrs. Smith:

We are pleased to have the opportunity to assist you in planning your cash flow. Before we discuss the data and recommendations, we would like to focus your attention on how this information should be used.

The accompanying projected cash flow plan was prepared solely to help you develop your personal financial plan. Accordingly, it may contain departures from AICPA presentation guidelines and should not be used to obtain credit or for any purpose other than developing your plan. We have not compiled or examined the projected cash flow plan and express no assurance on it. Furthermore, future events may cause material differences between the projected and actual results.

Discussion and Conclusions

The cash flow plan consists of fixed cash flows and variable cash flows. The fixed cash outflows are your typical monthly expenses that should not fluctuate significantly based upon your present lifestyle. These expenses will be funded by Sam's monthly law practice draw and interest income from your money market account.

Variable expenses are items that you designated as having less priority than the fixed expenses, and are to be funded to the extent the projected variable cash inflows are achieved. The variable expenses have been listed on the cash flow plan in your order of priority. Based upon the cash flows projected and assuming the stated cash inflows and outflows, it will take approximately two years for you to save the $20,000 required for a downpayment on your new home. However, as you indicated, an additional $6,000 per year after taxes will be required to fund mortgage payments. Because mortgage payments are fixed monthly expenses, you may want to defer the acquisition until your fixed monthly cash inflows are increased to an equal amount. Alternatively, additional savings from reduction of current projected discretionary expenses or additional time for accumulation of savings could be used to reduce the annual mortgage payments required.

As we discussed, monitoring the results of the cash flow plan and making necessary modifications when appropriate are imperative to its success. We have worked with you in creating a spreadsheet from which actual cash flows can be compared to those budgeted. We should meet at least annually to review the results and make appropriate adjustments.

We sincerely appreciate the opportunity to work with you.

CPA Firm

EXHIBIT 3/300-7

CPI ADJUSTED TO 1900

(Based on December to December Rate)

YEAR	BASE INDEX	% OF CPI INCREASE	YEAR	BASE INDEX	% OF CPI INCREASE	YEAR	BASE INDEX	% OF CPI INCREASE
1900	100	.1	1931	175	(9.4)	1962	364	1.2
1901	100	.1	1932	157	(10.4)	1963	370	1.6
1902	104	4.0	1933	158	.1	1964	374	1.2
1903	108	3.8	1934	161	1.8	1965	382	1.9
1904	108	.1	1935	166	2.9	1966	394	3.4
1905	108	.1	1936	168	.1	1967	406	3.0
1906	108	.1	1937	173	2.9	1968	426	4.7
1907	112	3.7	1938	168	(2.9)	1969	452	6.1
1908	108	(3.6)	1939	167	(.5)	1970	476	5.5
1909	108	.1	1940	169	1.0	1971	492	3.4
1910	112	3.7	1941	185	9.6	1972	509	3.4
1911	112	.1	1942	202	9.4	1973	554	8.8
1912	116	3.6	1943	209	3.4	1974	6,221	2.2
1913	120	3.8	1944	213	2.0	1975	665	7.0
1914	122	1.7	1945	218	2.3	1976	697	4.8
1915	124	1.6	1946	258	18.2	1977	744	6.8
1916	138	11.6	1947	281	8.8	1978	811	9.0
1917	164	18.8	1948	288	2.6	1979	919	13.3
1918	198	20.4	1949	283	(1.7)	1980	1,033	12.4
1919	227	14.5	1950	300	5.8	1981	1,125	8.9
1920	232	2.2	1951	317	5.7	1982	1,169	3.9
1921	207	(10.7)	1952	320	.9	1983	1,213	3.8
1922	202	(2.4)	1953	322	.6	1984	1,262	4.0
1923	207	2.6	1954	320	(.5)	1985	1,310	3.8
1924	207	.1	1955	322	.6	1986	1,324	1.1
1925	215	3.8	1956	311	2.7	1987	1,382	4.4
1926	212	(1.6)	1957	341	3.0	1988	1,443	4.4
1927	207	(2.3)	1958	347	1.8	1989	1,509	4.6
1928	205	(1.0)	1959	352	1.5	1990	1,601	6.1
1929	206	.1	1960	357	1.5	1991	1,651	3.1
1930	193	(6.2)	1961	360	.7			

INDEX

(References are to paragraph numbers)

PERSONAL FINANCIAL PLANNING PRACTICE AIDS & PRODUCTS

PFP Library Series

*Guide to Retirement Planning**	017207
*Guide to Cash Flow Planning**	017209
Guide to Planning for the Closely Held Business Owner	017202
*Guide to Investment Planning**	017111
*Guide to Risk Management and Insurance Planning**	017112

Available Fall 1993:

*Guide to Education Planning and Funding**	017213

* These volumes of the *PFP Library* are also included in the *Personal Financial Planning Manual*, available as a benefit of PFP Section membership.

Statements on Responsibilities in PFP Practice

SRPFP No. 1, *Basic PFP Engagement Functions and Responsibilities*	017204

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SRPFP No. 2, *Working With Other Advisers*	017212
SRPFP No. 3, *Implementation Engagement Functions and Responsibilities*	017211

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To obtain any of these products, call the AICPA Order Department at 1-800-862-4272, sub-menu #1.

THE PERSONAL FINANCIAL PLANNING DIVISION

PFP Section Membership

The PFP Section provides products and services to assist its members expand their technical knowledge, improve their professional competence, and increase the profitability of their PFP practice. Annual membership dues are $115. Section benefits include:

- The *Personal Financial Planning Manual*, offering practical information on the marketing, management, and technical aspects of a PFP practice, as well as detailed explanations and sample forms, reports, exhibits, checklists and other materials.
- *Planner*, the section's bimonthly newsletter, keeping you informed about relevant PFP issues, trends, and developments.
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For more information on PFP Section membership, please call (201) 938-3100.

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The AICPA has established a specialty accreditation for AICPA members who have at least three years of personal financial planning experience, successfully complete a comprehensive examination and meet certain other qualification requirements. The examination is offered twice each year—nationally in September and immediately prior to the annual PFP Technical Conference in January. Information about the program and the examination can be obtained by calling the AICPA Order Department at 1-800-862-4272, sub-menu #1, and requesting Personal Financial Specialist Accreditation Information (Product No. G00055).

READER'S RESPONSES TO *GUIDE TO CASH FLOW PLANNING*

Your assessment of this practice aid will help ensure that future publications of the Personal Financial Planning Division will be valuable to practitioners. Please photocopy this questionnaire and complete and mail it to **Coordinator, PFP Division, AICPA, Harborside Financial Center, 201 Plaza Three, Jersey City, NJ 07311-3881.**

Thank you for your assistance.

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1. How familiar were you with this subject before you read this practice aid?

1	2	3
Unfamiliar	Somewhat familiar	My area of expertise

2. How useful is the practice aid to your practice?

1	2	3
Not useful at all	Somewhat useful	Extremely useful

3. Is there additional information that you think should have been included or information that should be modified in this practice aid? Yes ____ No ____

If yes, please explain ______________________________

____

____

4. Do you think that an advanced level practice aid on this subject should be available?
Yes ____ No ____

5. What other subjects would you like to see covered in PFP practice aids?

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7. If not, how did you learn about the availability of this practice aid?

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8. Additional comments and suggestions:

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