

Debt Free Spending Instructions and Frequently Asked Questions

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This document describes the instructions and frequently asked questions about the Debt Free Spreadsheet program. It is to be used in conjunction with the Debt Free Spending Spreadsheet, as well as the Debt Free Spending Handouts. Special thanks to Keith Russell who developed the logic and tools, and who has allowed us to use this Spreadsheet which he has worked on for many years.

This “Debt Free Spending” spreadsheet is divided into five areas or sheets (also called Tabs): Plan, Prioritize, Spend, Record, and Evaluate. These are important steps we must go through if we are to get our financial houses in order. Each of these areas is critical to understand and use to become a better and wiser financial steward.

1. Plan (your Spending). This is where you plan your spending for the next month. It is your beginning month, and this month lists your income and expenses. Here you also list your debt payments, your remaining balance, your stated interest rate, and the number of months remaining with your debt until it is paid off. The program will automatically calculate how many months it will be until you pay off your debt if you pay more than the minimum amount. This sheet assumes that the amounts you pay for debt reduction are consistent each month for the remainder of your period.

2. Prioritize (your Debts). This is where you prioritize which of your debts you will pay off first. While there are different priorities of paying off debt, you must decide which method is best for you. Generally, you will make minimum payments on your debts except for the debt you want to pay off first, and you will use all excess funds to pay off that priority debt. Once that first priority debt is paid off, you will go to your second priority debt and work on that debt. You will continue until all your debt is paid off.

3. Spend (your Money One Year in Advance). This is where you develop and use a one-year Spending Plan. You will spend your money a year in advance, which should help you to see where potential problems may arise. Then, you should be able to see where you can save more or reduce spending more to prepare for the problems that will inevitably come.

4. Record (your Actual Spending by Month). This is where you record your actual spending versus your twelve one-month Spending Plans or Budgets. You will record your spending each day or each week, and note where you did well and where you have area for improvement.

5. Evaluate (your Actual Spending). This is where you see what you did and how you can improve. It is a summary of each of your one month Spending Plans.

If you will seriously think about what you want to accomplish to be a wiser financial steward, pray in faith that Heavenly Father will help you to accomplish what you (and He) wants, i.e., to be a wiser steward, and follow the instructions and tools provided, this program can help you attain your goals.

I. Debt Free Spending Instructions

This section is divided two areas: explanations and process. The explanations section discusses what the items mean and how the calculations are performed in both the Handout and the Spreadsheet. The process section describes the order that activities should be performed to get the maximum benefit out of this tool.

Explanations of the Debt Free Handout

Following are explanations of the columns and what they mean. These columns are found in two places, the Debt and Spending Handout, as well as the “Plan” tab of the Debt Free spreadsheet. It is a good idea to understand what each of the columns are so you will know what goes into the calculations. While historically most individuals have input the data into the Debt and Spending Handout and then later input the data from the Handout to the spreadsheet, we recommend to save time, to input the information directly into the Spreadsheet.

Plan: Explanations

- a) Items (Column C1): The first column is the item name. While these item names are general categories for most individuals, they can be changed. Please change the items to reflect the way the class member spends their money, consistent with the categories, i.e., income, contributions, savings, home, auto, etc. Class members will have different spending patterns and this section should reflect that. For most people the listed items are generally acceptable. If you do want to change an item, change it in the Plan tab, and it will be changed in all the other sections of this spreadsheet.
- b) Planned Income or Expenses for the Month (Column C2): The second column is your planned income and spending for the next month. Record the money that will be spent on the item for NEXT MONTH. It is hard to start in the middle of a month and record things when some of the things have already been paid for. So have the class PLAN ONLY THE NEXT MONTH.
- c) Total Amount of Savings or Debt (Column C3): This column is for savings and debt. Record the amount of DEBT OWING for the item. Remember that a DEBT is only something that has money owing at the end of the month, i.e., Car, House, Credit Cards etc. Unless you have money owing on those items, leave it out, i.e., utility bills, groceries etc. which do not carry over from month to month.
- d) Statement Interest Rate on Debt (Column C4): This is the interest rate column. “Interest” here refers to your APR or annual percentage rate if you are from the U.S. While your APR may not be known for each DEBT, especially for credit cards, a close figure should be recorded. Current rates for credit cards are about 14-24%.
- e) Statement Months to Pay Off Debt (Column C5): This is your remaining months to make your payment until your debt is paid off. For example, if you have a 360 month mortgage (30 years) and you have been paying on it for 120 months (10 years), your remaining statement months to pay off will be 240 months (or 360 – 120).

- f) Months till Out of Debt (Column C6): This column uses the NPER function in Excel to calculate, given the payment, remaining balance, and interest rate, how long it will take you, making the same payment each month, to pay off the debt. If you are paying more than the required amount, this number should be smaller than the Statement Months to Pay off Debt in C5. If it is more, you are not paying enough on your monthly payment to pay off your debt in the stated amount of time.
- g) Priority of Debt (Column C7): This column comes from the Prioritize Tab. It shows in order of priority which debts you want to pay off first, second, etc. These numbers can only be changed from the Prioritize Tab.
- h) Years till Debt-elimination (Column C8): This column is critical. The spreadsheet will divide the Month's till out of Debt (C6) by 12 to give the Year's till Debt Elimination.

If any free money is found after subtracting Expenses from Income, that money should be paid on the #1 DEBT, and when that DEBT is cleared the money should be paid on the #2 DEBT with the money freed, and so on till all DEBTS are paid. Class Member should try to spend ten percent less than they make to speed Debt Reduction. If Possible.

Plan: Process

In the Plan tab you will input your income and expense outlays for next month, as well as input your debt information. The process is:

1. To begin, set the Language and Month. Go to the Instructions Tab. Type the number of your Language into cell B2. Currently, "1" is for English and "2" is for Spanish. This will put the items in the respective language. Next, type the number of the next month in cell "B2" of the Instructions Tab. This will bring up the correct month in the correct language in cell "C2." This will put month labels on each of your remaining tabs. For example, if today is June 9th, type 7 in "b2". That way you will have July through June on your Project and Evaluate Tabs. While it is possible to begin mid-month, it is generally easier to start at the next full month.
2. Identify the ITEMS that you spend money for each month. Keep related items within the categories that have been set up. Here is the place you will change your items consistent with your spending habits and goals. If you want to change an item, change it in this Tab of the spreadsheet (**1-Plan**).
3. Record the amount that you plan to spend on each item. If it is not known exactly, use a close amount.
4. Record the amount of Total Amount of Savings or Debt in C3. Try to be as close to the actual amount as you can. This program uses very exact formulas in computing periods and the time till debt elimination, so the more exact, the better.
5. Add the Statement Interest Rate on Debt. This is the interest rate column. "Interest" here refers to your APR or annual percentage rate. While your APR may not be known for each DEBT, especially for credit cards, a close figure should be recorded. Current rates for credit cards are about 14-24%.

6. Add your Statement Months to Pay Off Debt. This is your remaining months to make your payment until your debt is paid off.

Note that the spreadsheet will calculate your Months till Out of Debt, using the NPER function in Excel, and the Years till Debt-elimination for each debt.

The spreadsheet will also total your income and total your expenses. If you have more income than expenses, you will have an amount in green at the bottom of the Plan tab. If you have more expenses than income, it will be an amount in read. The challenge is to live within your means, to spend less than you make (after all debt payments), and to put your financial house in order.

In addition, the program also calculates your total debt payments. Notice that any label with double asterisks (**) is a debt row.

The program then sums your debt payments and total debt, and then calculates a weighted average cost of debt, weighted by debt outstanding. Then based on your total debt payments, and assuming you would continue these debt payments until your total debt is paid off, it calculates the months and years until you are out of debt using the NPER function in Excel.

Finally, the program calculate the years till you are out of debt, assuming you used any income left over from Income less Expenses and added that on to pay your debt.

Prioritize: Explanation

This Tab is where you prioritize your debt and determine the order of which you will repay your debt. The information for Columns 1-5 and Column 8 come from the Plan Tab, and have been covered in the Plan Tab. Additional columns include:

- a) Minimum Payment on Statement Months (Column C9): This column uses the PMT function in Excel to calculate the minimum payment to cover principle and interest for the debt, assuming an installment loan.
- b) Monthly Interest (Column C10): This column calculates the monthly interest on the debt on a stand alone basis. It is the interest rate divided by 12 times the remaining balance.
- c) Priority of Debts (Column C11): This is what you input. Put a 1 in the row of the debt you want to pay off first, 2 second, and so on.
- d) Amount Left Owing (Column C12): To calculate the amount left on the loan, start with the beginning balance, add the monthly payment, and subtract the monthly interest payment. This gives the amount remaining.

Prioritize: Process

You must determine which debts you want to pay off first in Column C11. While there are many different methods, generally highest cost first or shortest payoff first are the two main methods. Highest cost first encourages you to pay off your most expensive debt first. That

way you are minimizing your interest costs. Shortest payoff first encourages you to pay off the debt that you can pay off most quickly. That way you are seeing success earlier, paying off the smaller debts so you can see some success. Success brings success. Regardless of your choice, you should prioritize your debts.

1. Put the number 1 by the debt with the shortest time to repayment or the highest interest rate. Then put the number 2 by your next debt, etc. That way you have included a priority for each of your debts.

Note that the computer will sum all the loans and weight the interest payments, and tell you how many months and years until you will be out of debt.

Spend: Explanation

This section is where you spend your money up to a year in advance. This is your “spiritual creation” of how you are going to use your financial resources, while your Record is the “physical creation.” Both are important to success.

a) Items (Column C1): The first column is the item name.

b) Months (Columns 2-13): These columns are your planned income and spending for the next twelve months. Record the money that will be spent on the item for each month.

c) Total Income/Spending (C14 Column): This is the summary of what you will spend over the next 12 months for your income and expenses.

d) % of Total Income (C15 Column): This column is the percent of the item divided by total income for the year. With this column, you can determine where the highest percentages of your money are going.

Spend: Process

1. Following the labels at the left, plan your spending for each of the months listed. Place the spending for each month under the correct heading.

Realize that different months have different spending priorities that should be taken into account. Common differences include spending for birthdays and anniversaries, insurance payments, service and tires on automobiles, etc.

Record: Explanation

This section is where you record your spending versus your One-year Spending Plan and your one-month Spending Plan.

a) Items (Column C1): The first column is the item name. This comes from your PLAN sheet. While these item names are general categories for most individuals, they can be changed on the PLAN Tab only.

b) From Projection Sheet (Column C2): The second column is your planned income and spending from your Project (Spend) sheet. This is what you expected to spend when you put together your one-year Spending Plan

c) Planned Spending and Income (Column C3): This column is your income and expenses from your previous month. This way you can see what you had planned to spend, as well as what you spent last month. This process helps ensure that we are learning from each of the Spending Plans we prepare.

d) Spending in Weeks 1-5 (Columns 4-8): This is where you input your spending into the appropriate week. The more often you follow your spending, the more you will likely reach your spending targets.

e) Total Income/Expenses for the Month (Column C9): This is a sum of each of your spending during the month, from weeks 1 to 5. It is added automatically.

f) Total Over/Under Planned Income (Column C10): This column takes the Planned Spending from the Project (Spend) sheet and subtracts the spending/income recorded, and calculates the difference.

g) Percent of Projected Income/Expenses for the Month (Column C11): This column calculates the percentage of projected income/expenses for the month..

h) Revised Income for Next Month (Column C12): This column is critical. The spreadsheet calculates the average of your Planned Spending from your PLAN tab and your monthly planned spending from your Project (Spend) tab. Then it takes the average of those forecasts and what you actually spent for the month, and uses that for your Revised Income for Next Month. This Revised amount then becomes your Planned Spending or Income (C3) for next month.

The beauty of this type of program is that it is continually learning—if you spend less this month then it automatically reduces for estimate for next month, and if you spend a little more it will automatically increase your estimate for next.

Record: Process

Now is the heart of this spreadsheet. After you have done your planning and projecting a year in advance, i.e., spending your money a year in advance, now is where you record your spending.

Once you spend any money, you must record that spending in the relevant category and by the correct item. It is critical that you record every dollar you spend each month, and put it in the correct category. Without proper accountability for your spending, this spreadsheet will not work.

1. Put in your spending and income by week. Generally, be consistent and do this either daily or at the longest, weekly. Input your spending and income from the first week into Column C4, from the second week into Column C5, and so on. Note that the computer will

sum all the loans and weight the interest payments, and tell you how many months and years until you will be out of debt.

2. Notice that if you are under your spending target in Column C10 (Total over/under Planned Income/Expenses), the cell is formatted green (or good). Green colors indicate that you are spending with the guidelines you have spent.

3. If you have spent more than your Plan, column 10 will be red. While some red cells on the sheet are OK, it is important that the overall Spending Plan for the month is positive, i.e., that income is greater than expenses.

Evaluate: Explanation

This section is where you see the results of your spending and income for the last twelve months. Each month you complete a Spending Plan will add an additional month to this Summary record

Evaluate: Process

This sheet is to be reviewed only. There are no new pieces of information. However, it is critical that you see where your spending went, you evaluate the need for each of the expenses made, and you make goals to help you do a better job in your financial stewardship next year.

I encourage you to ask yourself:

- Is this how Heavenly Father would have me spend the money He has entrusted to me?
- Am I fulfilling my responsibilities as I should as father (mother, child, etc.)?
- Am I being a wise financial steward?
- Have I separated out needs and wants?
- Am I following the counsel of Jacob in Jacob 2:18-19?
- Am I putting the Kingdom of God first in my life?

In summary, encourage you to play with this spreadsheet. It has locks on areas where you should not put data. If you want to unlock the spreadsheet, the password is "Faith." Please realize that unlocking the spreadsheet could result in incomplete and incorrect answers. However, a clean copy is generally available on the internet.

Disclaimer

The purpose of this material and this class is to help you get your financial house in order and to help you on your road to financial self-reliance. If there are mistakes in this material, please bring them to our attention, and we will correct them in upcoming versions. Keith Russell, Bryan Sudweeks, and BYU, specifically disclaim any liability or responsibility for claims, loss, or risk incurred, directly or indirectly, by using this material. Materials and content contained in this Website may be protected by U.S. copyright law (Title 17, U.S.C.) and/or by the copyright or neighboring - rights laws of other nations. Additionally, the reproduction of some materials may be restricted by privacy and/or publicity rights. We encourage the use of these materials as "fair use" under U.S. copyright laws (17 U.S.C. & 107). Unless otherwise noted, the individual images, text and objects from this Web site are available for non-profit and educational purposes, such as research, teaching and private study. For these limited purposes, you may reproduce (print, download, or make copies of) these materials without prior permission. Use of a particular item for other purposes, including commercial purposes, requires prior written permission. ©Copyright

II. Frequently Asked Questions

Q: Can I really get out of Debt as fast as the program says?

A: Yes but only if you commit yourself and your family. If you cut something--follow through. You should be out of debt in about five years.

Q: Why can't I plan the month I am in? Why must I plan for next month?

A: If you plan the month you are in it usually takes a long time to get an accurate account of the money that has already been spent. You will have to look up the actual amount spent. Planning the next month simplifies accounting for each item. You are able to record actual spending, and if you are off a little it will not cause as many problems.

Q: I do not know the actual amount of many of the Debts that I have. What should I do?

A: Make a very close guess as to the amount you owe. It is not necessary to contact the lender and get the full amount. Try not to underestimate though.

Q: How do I handle mortgage payments where part of the money goes for principle and interest and the rest goes for other things, such as private mortgage insurance, property taxes, property insurance, etc.? What should I do?

A: You can call your mortgage company and find out exactly how much goes toward principle and interest each month. Subtract this from your total payment, and this will give you the additional money you are paying for the other items. Record your principle and interest payments in **1-Plan** cell "C44", and the difference in cell "C47."

Q: Why do I need to keep only the minimum amount paid, why not pay a little extra on the debt?

A: The best way to answer this question is to give an example. Let's say you had four debts. Your goal is to pay them off sooner, so you pay \$20 extra on each debt. Four times \$20 is \$80 dollars extra a month. If you were to pay the full \$80 a month against one debt, that debt would clear faster. The payment would then be added to the \$80 extra you were paying on the first debt. So \$80 extra plus the payment of the first debt (which has now been paid off) plus the payment of the second debt makes a larger sum to quickly pay off the second debt. Continued payment in this manner of the third and fourth debts would pay them off much faster as well.

Q: Should I ever go on a budget with a utility or any other company and make my payments equal every month?

A: Equal monthly payments will help you plan your spending better.

Q: What do I do about payments for insurance and savings that are deducted from my pay check?

A: You should be working only with money that you have to spend for the month. If you want to keep track of deductions made on your check just add that amount back into the monthly income and take them out as you would any other expense.

Q: We really do not know how much we spend on food, what should we do?

A: A good way to calculate food is to count the number of people in your family. Now calculate \$150 for the first person. (that person would be the one that would purchase the salt, pepper,

ketchup and other condiments) Now for a family of four a rough estimate would be \$150 plus \$75 for each additional person or (\$150 plus (3X\$75 = \$225)) the amount of the TOTAL food bill would be approximately \$375 for food.

The first person actually pays the same \$75 for food that the others do but another \$75 is added to their food bill because someone has to pay for the food purchases that are not purchased every day. If that person were living alone His or Her food bill would be approximately \$150. You may be over or under the estimated amount. Only you can project the amount to use. If you are eating a balanced diet the figures are in the ball park for what you may use.

Q: What do we put in the special occasions category?

A: This is where you record the impulse purchases. If friends come over and you have to go to the grocery store to purchase something like popcorn, cookies etc. you would record that kind of purchase here.

Q: What is the Hygiene category?

A: This is for recording things that you do not purchase at the grocery store and you purchase them at perhaps a Drug store or some other store.

Q: We do not write many checks for cash but we do use the ATM machines. Is this correct?

A: Yes it is but be sure that you do not double count. If you use the cash to purchase anything in any other category do not record that purchase again in that category. For instance, if you need cash for lunch and take the money out of the ATM, you would not record the lunch in the lunch category as well as the "Checks written for cash" category.

Q: What do we do with money that is reimbursed for drugs for instance? Say we paid for the drugs and then were reimbursed?

A: Do not record that amount in the income section. Record it in the Savings section as a negative number. If you received \$150 reimbursement for prescription drugs record it as -\$150 in the savings category.

Q: Is it really necessary to record all the possible purchases on the Projection sheet?

A: Yes it is. What this sheet does is help you look forward to possible expenses that may not normally be planned for. Many people write a check and then record the expenditure in their check book. Then they think they have a good record. What you want to do on this sheet is spend all the year's money ahead of time. Now you can really plan better. You may want to call this sheet the "Erasing and Correcting Sheet" The sheet will help you make corrections before you make bad decisions for real. Decisions can now be made that will correct wrong spur of the moment decisions.

Q: Can you explain some of the decisions for planning?

A: Yes! Women get their hair done about every 3 months. Men get their hair cut about every month to 6 weeks. Some people purchase meat from specialty shops, so it is not included in the grocery section. It may be purchased only once or twice a year. Oil changes are made about every two to three months.

Q: Is there an easy way to spot problem areas?

A: Yes! After you have completed the Projection Sheet look for any line that has only one or two items purchased. E.g. tires for the car, insurances when they are not on a budget for each month. If you find any line with only one item, circle it. That is a problem area.

HOWEVER: it may not be the place to correct the problem. Let's say you need tires in November. The place you may want to look to correct your program so that you do not go over your planned spending, may be in the personal area back several months. Perhaps you could put off purchasing clothing or eating out as often. Perhaps you could take a lunch. You will have many ideas. But only you can decide where to change. This is your program. But, spending your money on paper months before it really happens will be a great help to you.

Q: I am self employed what do I do, I do not know what I will be bringing in any given month?

A: This is where planning ahead really makes sense. A self employed individual would plan the Expense section first. That will help you know what must be brought in to cover expenses. Now put in the estimated possible income. Look at the bottom line where expenses are subtracted from income. If it is negative you will have to go back and revise your spending and look carefully to see if your business is producing enough to keep going and have an income.

Q: Is there a formula to help me decide which debt to pay first?

A: There are two main schools of thought regarding debt repayment. The first is "most expensive debt first." Pay off the debt that has the highest interest rate. The second is "fastest payoff first." Here you pay off the debt that you can payoff the quickest. That way you see immediate success, and it will give you encouragement to pay off your next debt with the shortest time to payoff. This is the "Success breeds success" formula.

Q: How often should I record my spending?

A: Those that record the spending weekly usually stay on the program. Those that do it monthly usually drop off and stay in debt. The developer does it almost daily. It really helps to do it more often. How badly do you want to get out of debt??? If you are not in a hurry you will probably stay in and never get out. While others are saving their payments you will be still be making them. But they will have a better retirement.

Q: How do I teach my children?

A: Follow the same program and just include fewer items in each category.

Q: Is there a web site with other information in case I want to learn more about specific areas of personal finance?

A: Yes! One Web site we recommend is Brigham Young University's Marriott School of Management Personal Finance Web site at <http://personalfinance.byu.net>. This web site has lots of good information, and it is from a correct perspective.