

# BUDGET



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**Sushma Batra**

**Associate Professor**

**S. M. Patel College Of Home  
Science**

**Vallabh Vidyanagar**

# INTRODUCTION



- Food, shelter and clothing are basic needs of a human being. How can we fulfil these basic needs? We have to buy food, clothes and shelter (house).
- To buy anything, we need money. From where can we get this money?
- Your parents work to earn money to run the house and try to fulfill the needs of all the family members.
- If money is managed carefully, we can achieve our goals as well as save some money.



# INCOME AND ITS SOURCES

- Whatever is **earned in the form of money**, which comes into the household is called its income.

## Sources of Income

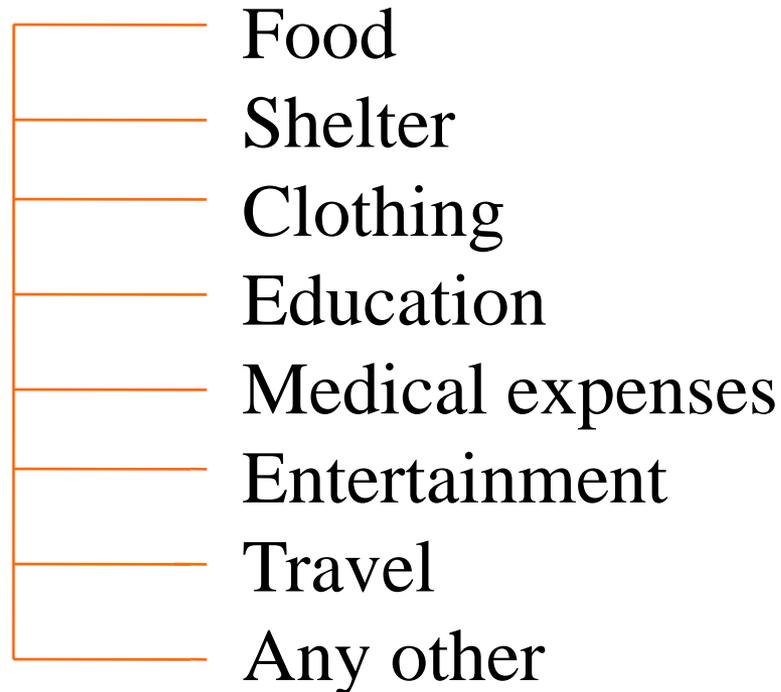
- salary of family members
- rents received from shop, home
- interest received from banks and savings
- from using skill of family members.



# EXPENDITURE

- Whatever money we **spend from the income** for buying various things to **fulfill our needs** is called **expenditure**.

- **Expenditure**



- ▶ **Income brings money into a family** while **expenditure takes money out** so that it is not available for anything else.



# NEED FOR MANAGING INCOME

- Need to plan the expenditure.
- To ensure that some **money is saved**, the expenditure must be less than the income.
- To manage **within your income** and
- To save money for **future needs and emergencies**
  
- **A Budget: is a planned approach to spend money. It is based on the total income of a family.**



# WHY MAKE A SPENDING PLAN?

- ▶ **To meet all the needs of the family members, make budget.**
- ▶ **Expenditure > Income** \_\_\_\_\_ **leads to** \_\_\_\_\_ **Borrowing**  
(> means more than)
- ▶ **Expenditure < Income** \_\_\_\_\_ **Saving**  
(< means less than)
- ▶ **To avoid impulsive buying.** When you go to the market to buy something but are attracted by something else which you really do not need and you buy it, that is called ‘impulsive buying’.

**But, if a spending plan has been made, it makes you stop and consider carefully before an item is bought impulsively.**



# WHAT IS A BUDGET?

- **Budget is based on the total income of a family.**
- A budget is a plan for future expenditures.
- A budget is a plan you write down to decide how you will spend your money each month.
- A budget shows you:
  - ✓ **how much money you make**
  - ✓ **how you spend your money**



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- **“A budget is a written record of the money that flows in and out of your household\* every month.”**
- **\* or pocket!**



# ADVANTAGES OF BUDGET

- ▶ Budget facilitates **balancing irregular income** against regular expenditure.
- ▶ Budget is useful when family's income **increases or decreases**.
- ▶ Budget helps to **control wasteful expenditures**.
- ▶ Budget forces to **decide priorities in life**.
- ▶ Budget helps in **achieving long term goals**.
- ▶ Budget helps to **live within income**.
- ▶ It helps family to maintain an even standard of living.
- ▶ Budget provides **useful records** of finance management.
- ▶ It gives **more psychic income** as majority of needs are satisfied and income is properly used.



# DISADVANTAGES OF BUDGET

- Budgeting and then record keeping involves too much of work and time.
- It may be impractical if it is too difficult to estimate income and expense.
- Budgeting is an example of multi track thinking because family must balance present against future needs.



# FACTORS AFFECTING BUDGET

## ▶ **Income**

The total family income from all sources will decide how much there is to spend. The more the income, more will be the expenditure on various items.

## ▶ **Size of family**

The number of members in a family determine the extent of expenditure. A large family will have to **spend more** on items like **food, clothing**, etc., and will thus be able to spend comparatively **less for entertainment** purposes.

## ▶ **Age of family members**

In a family where the children are of **school going age**, there will be **more expenditure on education**, school uniforms, etc., and less will be saved. But when these children grow up and take up jobs, the expenditure on their education will decrease and more money will be saved.



# FACTORS AFFECTING BUDGET

## ▶ **Place of residence**

The cost of living is higher in large cities like Delhi or Mumbai than it is in smaller places. People living in large cities have to pay higher rents for houses. The food items are costlier and people will have to pay more to travel to their place of work. However, these expenses will be lower in small towns and villages.

## ▶ **Skills**

The skills of different family members should also be considered. A woman who is very good at making papad, pickles, sweets, etc., will be spending less money on buying these things.

Similarly, if a man is good at repairing electrical equipment or can do carpentry, change washers of taps, etc., he will spend very little money on getting repairs done.



# FACTORS AFFECTING BUDGET

## ○ Savings

Every family has to decide how much to save each month. A family with a grown up son or daughter, ready for marriage, will **spend less on the luxurious items**, so that enough money is available for the marriage of the children.

Similarly, in order to build a house or to pay off a house building loan, the family has to shift the emphasis from **spending to saving**.



# TYPES OF BUDGET

- **Written plan :**
  - is more useful as everything is on paper.
  - One may not forget any item to be purchased and the amount of money allotted for items.
  - Controlling : **not incur more expenditure.**  
Easy to compare with records whether money spent is proper or not, how much money is left.
  - Evaluation can be done systematically as results are visible, all the goals are achieved or not.



## ○ **Mental plan**

- Plan everything in mind.
- Good for experienced people not for beginners.
- Good for those whose memory is sharp.
- It saves time of sitting and writing on paper.
- Controlling and evaluating may not be clear because cannot compare with record.



# HOW TO MAKE A SPENDING PLAN?

- **List all the requirements** (commodities and services) needed by the family members for that period.
- **Prioritize these needs.**
- **Estimate the total income** and facilities available to you for the period for which you are making the spending plan.
- **Allocate funds** keeping in mind the total income.
- **Balance the spending plan.** This will also help to save some money.



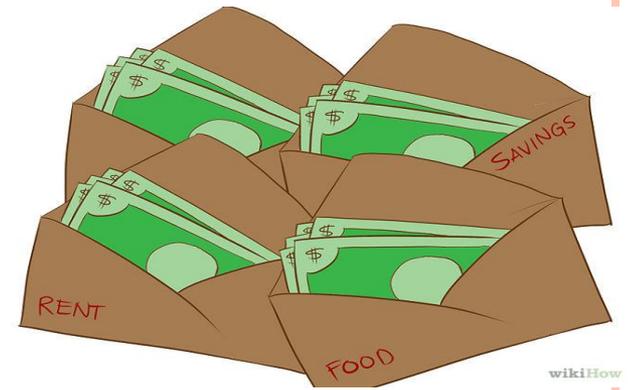
# LIST ALL THE REQUIREMENTS

- ▶ First step is listing all the requirements (main category). All families have their own budget according to their needs.
- ▶ The items of expenditure in your family may be as follows:
- ▶ **Food**
  - fresh foods
  - processed foods
  - ready to eat
- ▶ **House**
  - rent
  - repairing and maintenance
- ▶ **Clothes**
  - purchase of garments/fabric
  - repairs and stitching
  - dry cleaning and washing



- ▶ **Education** : books  
fees  
stationary
- ▶ **Household expenses** : fuel  
household supplies  
paid services(servant)
- ▶ **Transport** : personal (automobile)  
public
- ▶ **Public utilities** : electricity  
telephone Water  
postage





- **Home furnishings**

- **Medical expenses**

- 

- **Tax**

Doctors fees

Medicines

income

property or home

- **Entertainment**

- **Personal allowances of family members**

- **Emergencies**

- **Savings**

saving deposit

insurances

investments



# PRIORITIZE THESE NEEDS

- You have listed all the needs of your family members.
- Now prioritize all the needs.
- Remember that the needs and priorities of each family are different.



## ESTIMATE THE TOTAL INCOME

- ▶ **Calculate how much money you earn in a month after taxes.**
- ▶ It is most important to be **realistic** in this stage of planning
- ▶ Cause of budget failures is **overestimating income**.
- ▶ Income from all the sources should be taken into consideration such as Salary, wages, profits from an owned business, bonuses and gift, dividends from investment etc.



# CALCULATE YOUR EXPENSES



- Estimate the costs of the desired items , totaling each classification and the budget as a whole.
- Allot money to different heads according to your income and see how much you are able to save from your income.
- If a family is making a budget for the first time , keep records for a few weeks in order to obtain information about routine costs.
- The most satisfactory source of information on costs is the market itself, during the planning stage “shop around” and see what quality is available at what price.



## ○ Item of Expenditure

|                        |       |      |
|------------------------|-------|------|
| • Food                 | (35%) | 3500 |
| • Housing              | (20%) | 2000 |
| • Clothing             | (5%)  | 500  |
| • Family recreation    | (5%)  | 500  |
| • Household operations | (6%)  | 600  |
| • Education            | (5%)  | 500  |
| • Transportation       | (8%)  | 800  |
| • Medical expenses     | (3%)  | 300  |
| • Furnishing           | (3%)  | 300  |
| • Saving               | (10%) | 1000 |

## ○ TOTAL

**Amount (Rs.)**

**10000**



# BALANCING THE BUDGET

- While making budget, put down the expenditure on each item according to the requirement.
- The most important and difficult step in making a budget is balancing i.e. **making expenditure less than income.**
- Budget is not complete until total expected income equals total expected expenditures.

## Two ways to balance it

- **Earn more**
- **Cut down the expenditure**



# BALANCING

## Earn more

- ▶ Find **other sources of supplementary income** according to your capabilities, skills and knowledge like taking tuitions, stitching clothes, making handicraft articles etc.
- ▶ **Increase the income** by taking up part-time job, over time, household production like kitchen garden, poultry farming, bee keeping, and making preserved food items.



# Cut down the expenditure

- ▶ Do not waste food.
- ▶ Cut down on eating outside.
- ▶ Check extra expenditure on electricity, water etc.
- ▶ Ironing and washing at home.
- ▶ Economic use of stationery i.e. paper, pencils etc.
- ▶ Use of public transport.
- ▶ Use of cycle instead of a rickshaw.
- ▶ Use of public library instead of buying story books.
- ▶ Looking out for sales/ rebates and places where prices are comparatively lower.
- ▶ Shop in one trip.
- ▶ Avoid impulsive buying.
- ▶ Allocate funds to items which are not necessary, at the end.

# CONTROLLING

- Control in financial management is usually of two types:
  - **Checking :**
    - to see how well the plan is progressing
    - checking the budget by keeping records or accounts which show the distribution of money after expenditures have been made.



# ADJUSTING

Adjustments may be needed for several reasons.

- ▶ If the original plan was poor, changes will have to be made in carrying it out so that the family can achieve their goals .
- ▶ This may be due to the fact that **income was overestimated** , expenditures were not properly estimated
- ▶ When checking makes these faults apparent, **new decisions must be made** to correct the errors and revise the plan.
- ▶ Plans may also have to be remade because of factors **beyond the family's control**. Serious illness in the family the death of a near relative, or an unusual loss in business.

**Adjustments require new decisions.**

# EVALUATION

- Evaluation should be in the light of specific goals.
- See whether the goals set by the family were achieved or needs to reorient the goals.
- Needs of the family members have been met?
- There is allowance for emergencies, fluctuation in prices.
- Provision of future needs like education of children, marriage, old age were made or not.
- Psychic income that is satisfaction derived from expenditure is the most important for determining whether family's use of money is successful.



# Thank You

