

# Budgeting as a means to manage Household Finances

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## Abstract

*Cash management, savings, planning for retirement, setting financial goals etc. is becoming increasingly important for the survival and well-being of our families. People have long desired greater control over their finances. Research has shown that if people are having financial knowledge, they can do better financial planning. People with a financial plan tend to save more money, feel better about their progress, and make more appropriate decisions. People in different positions need to see all their accounts in one place in real time, track and analyze their spending, and achieve their financial goals. Budgeting will enable them actually reach their financial targets and set goals. A well thought out, planned and realistic budget will serve as a roadmap to get a person there. Budgeting is a financial tool facilitating their financial dreams, goals and aspirations.*

Keywords:-Financial goal, Financial knowledge, Financial planning, Budgeting.

## 1. Introduction

*According to Alan Greenspan, former Chairman of the Board of Governors of the Federal Reserve, “No matter who you are, making informed decisions about what to do with your money will help build a more stable financial future for you and your family.”[8]*

**Budgeting is not just about restricting spending and living a cheapskate life. It is about insights, wisdom, informed decisions, action and sustained discipline when it comes to household financials.**

The object of a good budget is to make your money help you reach your goals, not to force you to conform to rigid rules. Don't be discouraged if a budget plan doesn't work out right away. You may have to revise it several times until it fits your wants and needs. Then, review it from time to time; to be sure it continues to help you use your income in the best way. To manage your money effectively, first you have to make a sustainable plan.

**To make a sustainable plan:**

The key to successful money management is developing and following a personal Budget.

Remember, good money management is more than a mathematical formula. Your money management plan is always subject to change if your life situation changes.

1. Add up your total income, including any funds you receive in addition to your (monthly) earnings.
2. Figure out your total fixed expenses such as rent, insurance premiums or car payments.
3. Build an Income statement to achieve special goals.
4. Make a Balance Sheet to know your financial worth.

It seems like its simple, but most people find it difficult in practice. In reality, it requires detailed bookkeeping to track all of your income, investments, loan accounts, and bills. Formulate your very own personal and simple 'Home Budget' or rough first draft of your financial situation. It takes time and requires a lot of self-discipline. Start each month with the balance and enter every payment.

So after you've tallied up all of your gross income and all of your expenses for the month, you're finally ready to build an income statement. An income statement is a document that tracks the inflow and outflow of cash over some set time period - usually a month, quarter, or year. For personal finance issues, a month is a good resolution to use. After going through each step and making the budget, you will have a better idea of where your money is going and how much you have left over to work with [11].

## **2. Literature Review**

Research by Center for Personal Financial Education, on "Effective Strategies for Personal Money Management, 2004" has shown that if people are having financial knowledge, they can do better financial planning[3]. On the issue of Consumer Behavior Fuels Battle, Personal Finance Management Tools conducted a survey of more than 2,000 consumers in August which states that customers need to see all their accounts in one place in real time, track and analyze their spending, and achieve their financial goals[12]. Personal Budgeting which researched on 'Basic Principles for Maximizing Your Cash Flow' figure out that the real effectiveness of money management depends on the person's way of living and his goal setting[9]. Streamlining the planning process in most businesses demands technological tools capable of supporting a faster, more flexible, and adaptive approach to planning[1]. Matt in his paper "How to make a money management plan", in 2009 justified that personal financial plan is the key for money management solutions. According to him a financial plan gives a person an exact idea of from where the money is coming and where it is going and what has been left with him. He gives the description of money management tools like bookkeeping, Income statement, balance sheet and budgeting [11]. Mississippi State University Extension Service in their article titled "Manage Money Successfully" emphasized the need to understand the various types of expenses and keep

a thorough tracking of the same. According to them, calculating one's expenses accurately is prerequisite for the development of workable financial plan [10]. According to Adaptive Planning, in their paper "Best Practices for Budgeting, Forecasting and Reporting" in 2005 stated that the budgeting is the essential and useful feature in household as well in changing business environment [1]. Laurence Barkley, in his paper "How to save money and create value in a tough economy" focused on the factors to be considered while making budget [2]. A study was conducted by the Missouri Council on Economic Education, and results were presented in a document entitled 'Towards Economic and Financial Literacy: A Final Report'. The report concluded that one can build a more stable financial future for himself and his family by making budget [8]. According to the paper "Why Personal Finance Software?" a budget can be as simple as a piece of paper with headings for income and expenses written on it. Most personal budgets are calculated monthly. You don't need an elaborate budget. By keeping things simple, you will be able to follow your budget more easily. sign up for a class that will teach you how to manage your money. Classes such as personal finance and basic accounting teach you how to write a check, balance a checkbook, and understand credit card interest and fees. According to it budgeting is the best way to check how much financially responsible you are [13]. The paper "How to Set up a Family Budget" gives us the insight of need, constituents, benefits and advantages of a family budget [4].

### **3. Objective of the study**

1. To evaluate budgeting as a means to manage household finance.
2. To suggest the basic principles of budgeting
3. To list out the basic parameters on which Income and Expenditure can be tracked.

#### 4. Research Methodology

It is a conceptual paper. The study is based on secondary data. Data has been collected from books, journals, periodicals, newspapers and websites. After the analysis of the data and based on my research, these findings took place.

#### 5. Basic Principles for Budgeting

Before you begin to work out your plan, it is important to remember good money management starts long before you begin keeping track of your money. You need to look at your values. Your goals will reflect your values. Effective money management will depend on the way you choose to live and the goals you plan to achieve [9]. By thinking through your expenses, setting goals, and keeping records, you are in a better position to make revisions that reflect what is important to you and your family.

##### Step 1: SET GOALS

Setting a realistic goal, knowing what you have, what you expect to earn, is the basics of money management that enable you to control your money and make wise budgeting choices in future.

Knowing what is important to you and your family is a critical first step in a successful personal financial plan. Use the Setting Goals **Worksheet 1** to decide which financial goals are most important to the family and how much will be needed each month to accomplish these goals.

You may refer to them as you develop your spending plan.

A well-defined financial goal is:

**Specific** - what you want to achieve.

**Measurable** - how much money you will need.

**Tied to a time frame** - when you want to achieve the goal.

**Reasonable** – it can be achieved with the time and money available.

Prioritize goals in terms of their importance to you and your family. Goals will differ in the length of time needed to achieve them. It may not be possible to start working on all goals in the same year. Goals may be of two kinds; long term goals and short term goals. However, long-term goals need a place in the financial plan over time. Both short- and long-term financial goals will require regular savings. The most basic thing is KEEP IT SIMPLE.



## **Step 2: TRACKING ACTUAL EXPENSES**

You need to keep track of your actual expenses incurred during the month and group them into various categories. It will be easy for things like rent, phone etc. Understand your expenses – monthly fixed, flexible, and periodic expenses [10].

- Fixed expenses are the budget items that you pay a certain amount of money for every month for a specified period of time. Some examples of fixed expenses are rent or mortgage, car loans, and credit card payments.
- Flexible expenses vary from month to month and can be controlled and managed to some extent. They are generally more difficult to forecast than fixed expenses. Examples of flexible expenses include food, clothing, gas, telephone, and personal care.
- Periodic expenses occurs perhaps one or more such as insurance, car license tags, and Diwali gifts.

Using **Worksheets 2A & 2B** list your family's current expenses. Be sure to include all expenses as accurately as possible. Remember, small expenses add up and can be important in developing a workable spending plan.



### **Step 3: DETERMINE YOUR MONTHLY INCOME**

Understand your total income – This will include all sources of income for all contributing members of the household. This is to know where the money is coming from and how it varies.

Here are other sources of income:

- Cash gifts and inheritances
- Child support and alimony
- Commissions, tips, and bonuses
- Farm income
- Interest and dividends
- Pensions and profit sharing benefits
- Profits from sale of assets
- Public assistance
- Rental income
- Tax refunds

List your income on **Worksheet 3**. Write down all funds you expect to receive during the coming year. Start with fixed amounts that family members get regularly, such as wages or pensions. Put down the variable income you anticipate interest from savings accounts, dividends from stocks, gifts, and money from other sources.



### **Step 4: RECORDING REVENUES AND EXPENSES IN PERIOD INCURRED**

In addition to tracking the cash you spend, use your notebook to record every bill payment, check, debit, and credit card expenditure include the amount you paid, who you paid (or where

you shopped), and the date you made the purchase. Don't forget to record all of your checks in the check register.

Writing your expenditures down provides us with the unique opportunity to visualize and find out where money goes. Moreover, a written financial plan is far more effective than a mental one. Seeing your plan in writing helps to remind you about what actions are necessary to reach your goals and it helps you to check your progress more easily.

For each spending and saving line listed on the Spending and Saving Planner, there is an "Actual" column to track your spending and saving. Fill in the "Actual" column on a weekly/daily basis.



#### **Step 5: AUTOMATE THE PROCESS**

The next step in your financial plan is to look at your present situation by preparing the Net Worth Statement (also referred to as a Balance Sheet). A net worth statement adds up all your assets, the things you own, and subtracts from that your liabilities, all the debts you owe. Yearly net worth statements allow you to track your financial progress over time.



#### **Step 6: EVALUATE**

The last step in a successful financial plan is to periodically evaluate and revise your plan.

Compare your planned spending and saving to the amount you actually spent and saved. This step will allow you to measure your progress toward your goals. If you find that, you are not reaching your goals, you will need to decide:

- Are my/our goals still important?
- Are my/our financial goals too ambitious?
- Are the planned amounts reasonable?



- Was spending out of control in one or more areas?

At the end, if you are not satisfied with the performance, its time to make some slight revisions to your plan. No financial plan is set in stone. In fact, your plan should change as your needs change and as you make progress toward your goals. Another way to evaluate your progress is to compare annual net worth statements. Check your statements for the following:

- How assets have increased or decreased?
- How assets have moved from one category to another?
- Whether debts are growing faster than assets?
- How debts have increased or decreased?

## **6. Conclusions**

Writing a budgeting plan is not difficult; however it will take time and effort on your part. Following the plan is the biggest challenge for most people. The pay-off for meeting this challenge will increase family financial security and satisfaction. Once you have mastered a basic personal budgeting plan, you can expand your budgeting decisions in the following areas:-

- Tax planning
- Investing
- Saving for child
- Estate planning
- Retirement planning

## **7. Limitations of the study**

The study is based on secondary data collected from books, journals, periodicals, newspapers and websites only.

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## Worksheet 1

### Family Goals

Goal	Amount	Expenditure/Month	Goal Setting Date	Completion Time
Short Term Goals (less than 1 year)				
Medium Term Goals (1-5 years)				
Long Term Goals (above 5 years)				

## Worksheet 2 A

### Fixed Expenses

Item	Actual Amount	Expenditure daily/weekly/Monthly/Yearly
Saving / Investment		
Household Rent		
Utilities		
Electricity		
gas		
Water		
Telephone		
Cable TV		
Education		
Medical		
Doctor		
Drugs		
Social / Gifts/Contribution		
Child Care		
Food & Groceries		
Transportation		
Automobile		
Gas		
Bus / Taxi		
Maintenance		
Clothing		
Personal Care		
hair Care		
Health care		
Laundry		
Insurance		
Personal		
Automobile		
property / Home		
business Expenses & dues		
Recreation/ Entertainment/ Vacation		
Taxes		
Monthly Credit payments		
Department Stores		
Banks		
Petrol		
Loans		
Miscellaneous		

## Worksheet 2 B

### Flexible Expenses

Item	Full Budgeted Amount	Monthly Expenditure	Amount Spent last Year
Education			
Tuition Fee			
Books			
Uniform			
Medical			
Doctor			
Dentist			
Drugs			
Social / Gifts/Contribution			
Diwali			
Birthdays			
Automobile			
License			
Inspection			
Maintenance			
Personal Care			
hair Care			
Health care			
Laundry			
Insurance			
Personal			
Automobile			
property / Home			
Medical			
Subscription			
Magazine			
Books			
Recreation/ Entertainment/ Vacation			
Taxes			
Income			
Real Estate			
Miscellaneous			

## Worksheet 3

### Income

<b>Item</b>	<b>Gross Amount</b>	<b>Income</b>	<b>Net Income daily/weekly/Monthly/Yearly</b>
Paycheck / Salary			
Commission			
Bonus			
Interest			
Dividends			
Gifts			
Annuities			
Social security			
Retirement benefits			
Alimony			
Child Support			
Public assistance			
Veteran benefits			
Miscellaneous			