

# MODULE 3

## PRACTICAL BUDGET

“Some couples go over their budget very carefully every month; others just go over them.”  
(Sally Poplin)

“A budget tells us what we can’t afford, but it does not keep us from buying it.” (William Feather)

### Exercise 1:

What would you say is the purpose of a budget?

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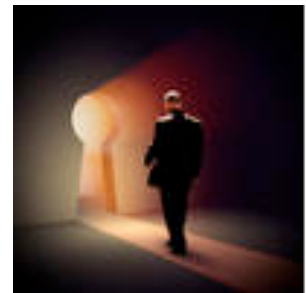
### DEFINITION OF A BUDGET

A budget is a plan that outlines an organization's/individuals financial and operational goals. So a budget may be thought of as an action plan; planning a budget helps a business/person allocate resources, evaluate performance, and formulate plans.

A budget is a description of a financial plan. It is a list of estimates of revenues to and expenditures by an agent for a stated period of time. Normally a budget describes a period in the future not the past.

### PURPOSE OF A BUDGET

- To **enhance**, not diminish, your personal life!
- Places you in a position to **clearly understand** your income and expenses.
- Places you in a position to **manage** your income and expenses.
  - Now you can say “**NO**” to impulsive buying!
- Your income now determines your expenses, not your expenses your income
- Make sure that income and expenses match, both in **amount** and **timing**
- Serve as a **indicator** to:



- highlight potential cash-flow problems
- opportunities to better utilize income
- **Measurement tool** to evaluate:
  - planned budget versus actual results
  - progress is made towards specific goals
  - highlight areas where changes should be made
- Gives you a sense of control and confidence
- **Empowers** you to make informed future financial decisions

## SPENDING AND SAVING

### ➤ SPENDING

- If you buy things you don't need, you will soon sell things you need

### ➤ SAVING

- Don't save what is left after spending; spend what is left after saving

## FOOD FOR THOUGHT

An average of 8 out of 10 people we consult (debt counselling perspective), have never seen or planned their own budget!

9 out of 10 who have planned their budget, do not use their budget to determine expenses.

Example of clients that lived the high life 2-3 years ago, now they are on debt counselling.



People tend to view budgets as complicated, difficult and time consuming, should not be the case.

Most of us believe that we are OK, "we are making ends meet without a budget".

Unfortunately, most of us are one salary slip away from being bankrupt!

No one is exempt/immune against events that can financially cripple us!

Warren Buffet lost \$10 billion during the financial meltdown.

## PREPARING A PERSONAL BUDGET

### STEP 1

Determine short and long term goals:

- a) Short term
  - i) buying a new vehicle
  - ii) buying new tyres or major vehicle service
  - iii) medical costs (dentist, operations, spectacles, etc)



- iv) house renovations, holiday, etc.
- b) Long term
  - i) retirement
  - ii) tertiary studies
  - iii) weddings
  - iv) debt free live!!
  - v) etc?

Budget should make provision for short and long term goals

**Exercise 2:**

**List your short- and long term goals:**

**Short term**

- 1. \_\_\_\_\_
- 2. \_\_\_\_\_
- 3. \_\_\_\_\_
- 4. \_\_\_\_\_
- 5. \_\_\_\_\_

**Long term**

- 1. \_\_\_\_\_
- 2. \_\_\_\_\_
- 3. \_\_\_\_\_
- 4. \_\_\_\_\_
- 5. \_\_\_\_\_

**STEP 2**

Understand possible events that could financially cripple you

- Death of a partner → LIFECOVER
  - Sufficient to cover debt and loss of income
  - Unselfish act of love!
  - Will happen to us all!
- Retrenchment → INCOME PROTECTION/PROPER INVESTMENT
- Physical/Mental disability → DISABILITY COVER/INCOME PROTECTION
- Medical costs/Severe illness → SEVERE ILLNESS COVER
  - Medical aids are becoming more reluctant to pay for the best severe illness treatment
  - Will pay for minimal effective treatment
  - Example: breast cancer/severe motor accidents
- Over-indebtedness → DEBT COUNSELLING
- House and household cover → SHORT TERM INSURANCE????
- Other suggestions???

Income must determine the amount of money that can be paid towards the above.

Therefore it is important to **prioritize** before allocating money to all the above.

### Exercise 3: Prioritise allocation for above events.

#### Short term

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_
4. \_\_\_\_\_
5. \_\_\_\_\_

#### Long term

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_
4. \_\_\_\_\_
5. \_\_\_\_\_

#### STEP 3

Prioritize obligations and expenses

- Obligations
  - Mortgage, vehicle finance, personal loans, credit cards, overdraft
- Fixed versus Variable expenses
  - Variable expenses
    - **Groceries** (stewardship contribution – poor), entertainment, recreation, birthday parties, school excursions, donations, telephone bills, gifts, **bank costs**, etc
  - Fixed expenses
    - School fees, insurance, housekeeping, garden service, rates and taxes, pocket money, **contingency**, investment, church, etc.



#### **MANAGING YOUR BUDGET**

- Diarise time to manage your budget
- Develop a method of managing variable costs on a daily basis
  - Groceries, etc,
    - envelope system
    - credit or consumers card
    - receipt management (envelope)
    - other examples
  - Bank costs
    - debit cards and cheques
    - develop a strategy to reduce bank costs!!!!
- Develop a reward system to motivate future budget management



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**Exercise 4:**

**What strategy can you implement in order to manage your budget?**

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**Exercise 5:**

**What reward system can you implement that will help you manage your budget effectively?**

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