Ethiopian TVET-System

Basic Account Works Level-II

Based on August 2012GC Occupational standard

Module Title: Developing and using Personal Budget
TTLM Code: EIS BAW2 TTLM 0919V1

This module includes the following Learning Guides

LG30: Analyze And Discuss Budgeting As A Financial Tool

LG Code: EIS BAW2 MO8LO1 LG- 30

LG31: Develop a personal budget

LG Code: EIS BAW2 MO8LO2 LG-31

LG32: Implement and monitor the personal budget

LG Code: EIS BAW2 MO8LO3 LG-32

Instruction sheet	LG30: Analyze And Discuss Budgeting As A Financial Tool

Upon completion of this Learning Guide, you will be able to –

- The role of budgeting
- explain the benefits and purposes of budgeting
- a calculation of all income and expenditure and variances for period of time
- The importance of setting financial goals
- insufficient income & deficy

Learning Activities

1. Read the specific objectives of this Learning Guide.
2. Read the information written in the "Information Sheets 1,2&3" in pages 15-16
3. Accomplish the "Self-check 1,2 &3" in page 15.
4. Read the information written in the "Information Sheets 1-3" in pages 7-8.
5. Accomplish the "Self-check 1-3" in page 15.

1.1. Introduction to budget

☞ **What is a budget?**

A budget is a financial document used to project future income and expenses.

- A budget is a plan expressed in dollar amounts that acts as a road map to carry out an organization's objectives, strategies and assumptions.
- A company might have a master budget or profit plan for the upcoming year. The master budget will include a projected income statement and balance sheet. Within the master budget will be operating budgets such as a sales budget, production budget, marketing budget, administrative budget, and budgets for departments. In addition there will be a cash budget and a capital expenditures budget.
- Budget refers to a calculation of all projected income and expenditure for period of time (e.g. on a weekly or monthly basis) showing all projections versus actual income and expenses for the period and monitoring variances
- Most people associate the word "budget" with the approving, rejecting, or arguing over various budgets. Tax payers demand that governments plan the effective use of their hard earned tax amounts, and budgets not only allow governments to plan spending, but also allow tax payers to see exactly where and how their money is being spent.
- Most business organizations use budgets to focus attention on company operations and finances. Budgets highlight potential problems and advantages early, allowing management to take steps to avoid these problems or use the advantages wisely. Thus, a budget is a tool that helps managers in both their planning and role functions.
- Budget is a quantitative expression of the money inflows and outflows to determine whether a financial plan will meet organizational goals. Budgeting is the process of preparing budgets. Budgets help mangers with their role function not only by looking for ward but also by looking back ward. Budgets, of course, deal with what mangers plan for the future. However, they also can be used to evaluate what happened in the past. Budgets can be used as a benchmark that allows managers to compare actual performance with estimated or desired performance.
- Recent surveys show just how valuable budgets can be. Study after study has shown budgets to be the most widely used and highest rated tool for cost reduction and role . Advocates of

budgeting go so far as to claim that the process of budgeting forces a manager to become a better administrator and puts planning in the fore font of the manager's mind.

Self-Check -1	Written Test

Directions: Answer all the questions listed below. Use the Answer sheet provided in the next page:

1. " define the Budgets?.
2. What means the personal Budgets?

***Note:* Satisfactory rating - 1and 2 points** **Unsatisfactory - below 1and 2 points**

You can ask you teacher for the copy of the correct answers.

Answer Sheet

Name: ___________________________

Date: ________________

Score = ___________

Rating: ____________

Short Answer Questions

1____

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2____

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1.2 The role of budgeting

- It is a simple way to make financial information accessible to all people in the organization who need to use it. Each member or staff member should know how much money is available for what part of your work.
- It helps you to understand exactly what your work will cost and what limitations your have so that your plans can be made more realistic.
- It clarifies where you have gaps and need to do more fund-raising. It also helps to write fund-raising proposals based on realistic costing.
- All financial statements should be written in terms of the budget so that it is easier to be transparent and accountable and to ensure that no money is spent on costs that you have not budgeted for.
- It helps members or executive members or management to monitor expenditure throughout the year and to make sure that it is in line with the budget amounts - monitoring should happen every month or two and should be in terms of the budget categories.
- It makes reporting to members or funders much easier since the expenditure can be compared to the amounts that you actually budgeted.
- A good budget can also help to avoid waste. When every amount is carefully calculated, it is easy to see how your money is being spent and to decide whether your are making any unnecessary expenditure
- Budgets also help managers coordinate objectives. For example, a budget forces purchasing personnel to integrate their plans with production requirements while production managers use the sales budget and delivery schedule to help them anticipate and plan for the employees and physical facilities they will need. Similarly, financial officers use the sales budget, purchasing requirements, and so forth to anticipate the company's need for cash. Thus the budgetary process forces managers to visualize the relationship of their departments' activities to other departments and to the company as a whole

Self-Check -2	Written Test	Short Answer Questions

Directions: Answer all the questions listed below. Use the Answer sheet provided in the next page:

1.discuse and expline the role of personal budght

Note: **Satisfactory rating - and points** **Unsatisfactory - below and points**

You can ask you teacher for the copy of the correct answers.

Answer Sheet

Score = ___________
Date: _______________
Rating: ____________

Name: ___________________________

Date:---

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. **Short Answer Questions**

1____

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2____

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1.2. 1 explain the benefits and purposes of budgeting

Three major benefits of budgeting are as follows:

1. Budgeting compels managers to think ahead by formalizing their responsibilities for planning.
2. Budgeting provides definite expectations that are the best framework for judging subsequent performance.

3. Budgeting aids managers in coordinating their efforts, so that the objectives of the organization as a whole match the objectives of its parts.
4. Budgeting helps to motivate employees.
5. The advantages of budgets are:
6. As an essential part of the management process budgets compel planning, making people within an organization think about the future. A formal budgeting procedure with specified deadlines compels operations managers to divert their attention away from day-to-day business and get down to completing the budget.
7. Budgets promote essential principles of communication and coordination. This may be seen as applying the obvious, but the formal procedure will make the sales function talk to the operations and/or customer service function.
8. Budgets are a guide for action.

- Suppose the sales budget has been prepared for an airfreight forwarder. From available data, and knowing the amount of traffic moving on a particular route, capacity requirements by day and airline could be built up. This might involve talking to carriers about availability and pricing. There are further "knock-on" effects: first there is the question of the availability of operations and, for instance transport, and the correct mix of skills. This may in turn lead to decisions about recruitment/training or even changes in working practices. Then there is the question of shift patterns, support staff availability etc.

A realistic budget will motivate action. A sales budget is a target that must be achieved. This will motivate the sales managers and their teams to get out there and get the business.

9. 4. A basis for performance evaluation is provided by budgets. They are an integral part of role and review procedure in that they establish agreed targets to be achieved, and for performance to be monitored against. This is why participation in budgets is so vital, since operations managers are effectively being asked to achieve an agreed objective within agreed parameters.
10. 5. Historically it has been argued that budgets can be used to identify considerable savings in overheads and costs. This may be true, but what is important is that the budgetary role system

keeps the organization fit, monitors its progress and provides an important database in the decision-making-process. Let's look more closely at each of these benefits.

The budget is an essential to tool help you run a more effective organization. In the same way that the government needs to draw up an annual budget, to make sure that all plans and programmers are properly funded, an organization needs to prepare a budget in careful detail. Budgeting is part of planning - you start with setting your objectives, then you draw up action plans and budgets.

➢ The Purpose of a Personal Budget

Exchanging vows is an ethereal experience. Far less romantic is discovering that the "two shall become one" business also means a merging of joint incomes and expenses. If the mere thought of keeping tabs on spending makes you shudder, the purpose of a personal budget for two can seem restrictive – even oppressive – connoting penny-pinching and even abject frugality. There are, however, many reasons why it's vital to make a budget and stick to it. One of the most important is so you and your better half have financial security in your future.

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A.Follow the Money

The most obvious purpose of a personal budget is to let you and your partner see where the money goes. The conventional way of preparing a budget is to tally up both your fixed and variable expenses and seeing how these line items match up against your joint income. Fixed expenses are largely those beyond your role , such as rent, student loans, car insurance, utility bills, money you put into savings and other expenses that you can predict within a fair degree of accuracy. Variable expenses include those that have a lot of wiggle room, such as the money spent on groceries, cosmetics, clothing, credit card debt and nonessentials such as gym membership fees, expanded cable television service and all forms of entertainment. Tallying up your fixed and variable expenses and calculating how much you spend to maintain your lifestyle tells you if you're living within your means. To live within a perfect budget, spend no more than 30 percent of your gross income on housing and other debt. Spend 4 percent on insurance, tuck 15 percent into savings and earmark 25 percent for taxes. Tag the remaining 26 percent for general household expenses.

B.Curtail Debt

The couple that plays together pays together – this is lesson hard-learned when you take a look at a budget that veritably burgeons with unpaid credit card debt. Another purpose of a personal budget is to shed light on just how much you're spending paying back unsecured debt. Assuming your credit card balance is $5,000 at an interest rate of 18 percent, this debt can ultimately cost you $8,000 if you only made minimum payments. Making a budget also forces you to examine the debt-to-limit ratio on your credit card bills. Too many maxed-out credit cards can level a walloping blow to your credit score, making it difficult, if not impossible, to grab the brass ring so many couples reach for – a home loan.

C.Keeping the Peace

Budgeting now prevents marital strife later down the line, curtailing needless quibbling about who spent the money – and why. The budgeting process is also an ideal time to discuss your respective spending habits – is one of you a saver and the other a spender? – troubleshoot potential pitfalls in cases when one spouse brings debt to the marriage, and come to an agreement on how you plan to save for a rainy day. A healthy budget allows you to save up enough money to cover three to six months of living expenses should you or your spouse become unemployed or unable to work.

D.A Safe Future

Although milestone events such as purchasing a home, starting a family or retiring from your job may seem light years away, a budget is an absolute requisite to help you accomplish long-term financial security. Don't think of a budget as a play-by-play rulebook you both need to follow till death do you part. Your joint personal budget is a flexible tool that changes throughout married life, taking into consideration times when money is abundant or scarce; it also accommodates new financial goals after old ones are met. A strong budget that gets the final nod from both you and your partner lets "his" and "hers" become "ours."

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Self-Check -3	Written Test	Short Answer Questions

Directions: Answer all the questions listed below. Use the Answer sheet provided in the next page:

3. " define the Budgets?.
4. ".what is the differance b/n varible expense& fixed expense? Explain.
5. discuse and expline the role of personal budght
6. Lisit the type expense?
7. What are the major benefits of budgeting?

Note: **Satisfactory rating - 3 and 5 points** **Unsatisfactory - below 3 and 5 points**

You can ask you teacher for the copy of the correct answers.

Answer Sheet

Score = ___________
Rating: ____________

Name: _________________________

Date: _______________

. **Short Answer Questions**

1____

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2____

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1.2.2 a calculation of all income and expenditure and variances for period of time

- **Income**

What is income?

Income: - the money that a person, a region, a country etc earns from work, from investing money, from business etc. it is an annual, monthly, quarterly and weekly income

Source of income may include:-

- Interest on investment
- Sale of assets
- Social security benefits
- Pensions
- Allowances
- Rent income
- Commission (agency)
- Bonuses
- From tourism

- **Expense**Your budget is comprised of both fixed and variable expenses. But what do these two words mean? How do they differ from necessities vs. discretionary spending?

Fixed expensescost the same amount each month. These bills cannot easily be changed.

Your mortgage, for example, is a fixed expense. While you could theoretically change your monthly mortgage payment by refinancing your loan or by appealing your property tax assessment, this is not an easy switch. (The same is true if you pay rent. You could change this expense by moving to a cheaper home or getting a roommate, but these are major lifestyle changes.)

Your health insurance, car insurance, life insurance, and homeowners or renters insurance are also examples fixed costs. You would have to spend several hours researching alternate plans in order to change these monthly payment amounts.

The major lesson here is that **in spite of its name, "fixed" expenses are not necessarily set in stone.** If you lose your job or aggressively want to start saving, you could devote a few hours to culling your fixed expenses. Since fixed expenses typically represent the biggest chunk of your budget, the money you save in this category can be quite substantial.

Saving money on fixed costs has a second advantage, as well: you won't feel as though you're curbing your lifestyle. Shopping around for a cheaper health insurance premium or a less expensive cellular phone plan will only require a few hours of your time each year. Once you've found these low-cost vehicles, you'll automate frugal choices into your monthly budget.

In other words: lowering your fixed monthly bills won't make you feel like you're being frugal, because most people don't think about their monthly fixed costs. You'll "feel the pinch" much more when you make day-to-day decisions like "Should I eat at a restaurant tonight?" or "Should I buy those jeans?"

- **Variable Costs**

Variable expenses represent those daily spending decisions like eating at a restaurant, buying clothes, drinking Starbucks and playing a round of golf with your buddies.

These costs are not considered variable because they're discretionary. Rather, they're "variable" because the amount that you spend differs from month-to-month.

While most variable costs represent discretionary spending (such as restaurants, Starbucks and golf), some variable costs represent necessities.

Most families, for example, spend variable amounts of money on groceries each month. Most people spend variable amounts each month on putting gasoline in their cars and paying for necessary car repairs and maintenance.

Variable costs are usually the first expenses that people try to cull when they need to start saving money. Unfortunately, variable costs are also some of the toughest expenses to cut back on, because it requires a daily commitment to frugal decision-making.

Trimming a fixed cost, like your cell phone plan or your cable package, requires only making a decision once and then living with that decision for the next several months or years.

Trimming variable costs, on the other hand, requires actively making multiple decisions everyday about whether or not to buy certain items or participate in certain events

Summary

- **Expense-** it is the act of spending or using money during particular period of time

Source of expense may include: - from fixed expense

-From variable expense

- **What is fixed expense?**
- Fixed expense- is that does not change in total for a given time period and the amount of money used to run a business that remains the same

Fixed expense may include:-

- In esurience expense
- School and university expense
- Loan repayments on fixed interest rate
- Rent expense
- Public transport expense

Variable expense

What is variable expense?

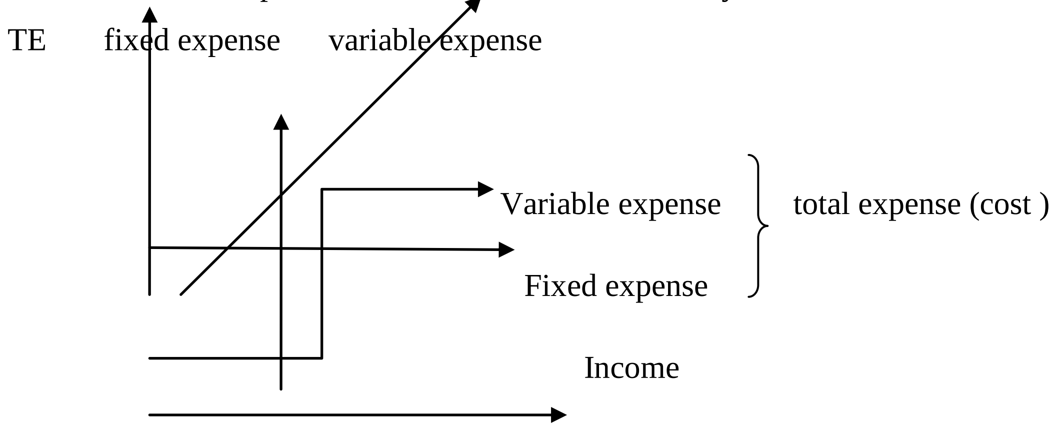
Variable expense- that change in total in proportion to changes in the related level of total activity. ‘

Those are: - food expense - loan repayments, if loan is based on variable interest rates

-Clothing - recreation expenses

- Medical - utilities expense like

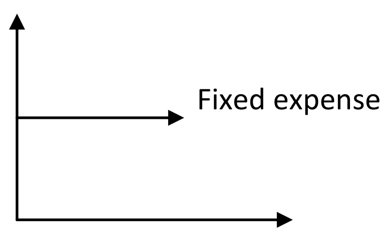
- Gift expense -water - electricity **The structure of fixed and variable expense**



Examples of fixed Costs (expense)

1. Duruman College in cur in a given year a total of birr 2,000,000 in leasing expense for land where its building is constructed

The behavior of annual fixed expense



Writing a Personal Budget

Writing a personal budget is a process of determining how much money you have available on a regular basis, and deciding the best things to spend it on. By creating a specific plan that shows how much money you'll spend in a given area of your budget, and sticking to that spending plan, you can free up funds to use for other expenses or bills.

Step 1

Write down the total amount of money you earn from all sources each month. For budgeting purposes, only write down funds you actually received (take-home pay), because that's all you're able to actually spend.

Step 2

Subtract each major household and personal bill you have, listing the name and amount of each individually. Create estimates for any bills you don't have a specific total for. According to New MexicobudgetUniversity, American households generally spend an average of 30 to 35 percent of their take-home pay for household expenses such as rent, utilities and furnishings. If in doubt, try starting with those percentages for your first budget.

Step 3

Subtract remaining necessary expenses, such as groceries. List each item by name, and assign a dollar total estimate for how much you normally spend on that item each month. While household spending priorities vary, if you're not sure how much to budget, you can begin with averages. Americans spend 15 to 20 percent of their income on food, and 17 to 19 percent on transportation.

Step 4

List and subtract additional non-essential items that you want to spend money on each month, such as clothing and entertainment. Clothing averages three to seven percent of take-home pay across the country, while entertainment averages five to six.

Step 5

Distribute any remaining funds to spending areas that are underfunded, or assign them to an extra savings category. Use surplus savings for special events and purchases, or to cover emergencies

Self-Check -4	Written Test

Directions: Answer all the questions listed below. Use the Answer sheet provided in the next page:

1. ".what is the differance b/n varible expense& fixed expense? Explain.
2. discuse and expline the role of personal budght
3. Lisit the type expense?

Note: **Satisfactory rating - 2 and 3 points** **Unsatisfactory - below 1and 3 points**

You can ask you teacher for the copy of the correct answers.

Answer Sheet

Score = ___________
Date: __________________
Rating: ____________

Name: _________________________

. Date.---

. **Short Answer Questions**

1____

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2____

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Task 2 prepare a table to record monthly and annual budget expense and income of 2012 and 2013

Main task	Monthly budget	Annual budget for	Monthly budget	Annual budget for

	for 2012 (birr)	2012 (birr)	for 2013 (birr)	2013 (birr)
Income	55,000	660,000	55,000	660,000
Utility expense	10,000	120,000	9000	108000
Rent expense	4,000	48,000	4200	50400
Transportation cost	4,000	48,000	3800	456000
Food cost	20,000	240,000	19000	228000
Dry cleaning	8,000	96,000	--	--
Car maintenance	4,000	48,000	3600	43200
Lone payment	8,0000	96,000	--	--
Saving plan	--	--	540	6480

1.5 <u>How to calculate surplus or deficit budget</u>

Total expenses recorded are subtracted from the total income to determine a surplus or deficit budget for the specified period.

So, always total income greater than total expense that can result budget surplus

But, if total income less than total expense that can result budget deficit or shortage.

Total income – total expense = surplus or shortage or zero result

<u>Example 1</u>

Kebede

Personal budget

First, quarter 2007

<u>Income from SeptemberOctoberNovember</u>

-Salary ……………………. 5000 ……………….. 5000 ………………. 5000

- Allowance………………… 2500 ………………. 2000 ………………… 1500

- Bonuses …………………… 10000 ……………. 0 …………………….. 1000

- Rent ……………………….. 500……………….. 500 ……………………. 500

Expense from SeptemberOctober November

Clothing ……………………………. 3000 …………… 2000 ……………….. 5000

Food at home ……………………… 5000 …………….. 4500 ………………… 4800

Health care ………………………….. 900 …………….. 800 ………………… 400

Insurance ……………………………. 600 ……………... 600 …………………. 600

Food away from home ……………….. 500 ……………….. 700 ………………… 700

Other expense ……………………….. 1000 ……………. 1000 ………………. 1000

Task 1, determine kebede personal budget either surplus or deficit budget for each month by budget table format

Task 2,In which month, kebede set a higher expense?

Solution

Task 1, prepare kebede personal budget to indentify surplus or deficit budget

AtoKebede

Personal budget First quarter 2009

Income from	September	October	November
Salary	5000	5000	5000
Allowance	2500	2000	1500

Bonuses	10000	0	1000
Rent	500	500	500
Total income	18000	7500	8000

Expense from	**September**	**October**	**November**
Clothing	3000	2000	5000
Food at home	5000	4500	4800
Health care	900	800	400
Insurance	600	600	600
Food away from home	500	700	700
Other expense	1000	100	1000
Total expense	11000	9600	12500
Budget surplus	7000	--	--
Budget deficit	--	2100	4500

Task 2, Identify higher expense from a given month

September total expenses = 11000

October total expenses = 9600

November total expenses = 12500

So, November total expenses is higher budget expenditure

1.3 the important of setting of financial goal

- ***Financial goals*** may include: accumulating a set amount of money by a specified date in the future for the purposes of:

  - purchasing assets
  - financing holidays, educational expenses, home renovations and other known future expenses
  - establishing a deposit for an investment such as a home or investment property

aiming to repay existing debts and be debt free

establishing a regular savings plan

handling income and expenditure responsibly and avoiding financial difficulties

. accumulating a set amount of money by a specified date in the future for the purposes of:

  - purchasing assets
  - financing holidays, educational expenses, home renovations and other known future expenses
  - establishing a deposit for an investment such as a home or investment property

aiming to repay existing debts and be debt free
establishing a regular savings plan
handling income and expenditure responsibly and avoiding financial difficulties

1.4.Obstacles preventing financial goals

being unemployed, particularly long term unemployed
insufficient income to afford items that are beyond the individual's means
unexpected circumstances such as:

- losing a job
- falling ill
- not being able to work

Self-Check -5	Written Test

Directions: Answer all the questions listed below. Use the Answer sheet provided in the next page:

1.“ what is inportant of Budgets?.

2.discuse and expline the obstacle of personal Budgets?.

3. list the example of varible & fixed expense?

4.Why is budgeted performance better than past performance as a basis for judging actual results?

Note: **Satisfactory rating - 3 and 5 points** **Unsatisfactory - below 3 and 5 points**

You can ask you teacher for the copy of the correct answers.

Answer Sheet

Score = ___________
Date: ________________
Rating: ____________

Name: ___________________________

Date.______________________________

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. **Short Answer Questions**

1____
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2____
_____

3.____
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Develop a Personal Budget

Whether you've got your sights set on buying your first home, investing in a new car or maybe taking an extended getaway, developing a budget for yourself is the first step toward achieving your personal financial goals. Sticking to a budget may not come naturally, but with discipline and gradually changing your habits you will be able to finally start seeing a significant increase in your savings account. If you're not ready to sacrifice those lattes during your morning commute, you can still include them in your budget – it just may take a little longer to reach your goals.

Preparation

Step 1

Plan to spend anywhere from two weeks to a month learning where and how you are spending your money. If you follow a steady routine, two weeks should be enough time, but if your days are more chaotic, take a month.

Step 2

Record all of your daily expenses – even those afternoon trips to the office vending machine. It may seem tedious, but the mere act of writing down every time you part with your hard-earned money may be enough to reduce excess spending.

Step 3

Itemize your expenses and add up a monthly total for each one. For example, the total of all your gas receipts will be a good average for what you spend a month on fueling your car. You may be surprised by some totals. These are your monthly expenses after bills and rent or mortgage.

Step 4

Consider which expenses you can eliminate or reduce. Perhaps you can get that pedicure every two weeks instead of every Friday, or maybe you can cut back on caramel macchiatos to just two or three days a week, rather than every morning.

2.1. Introduction and principles of personal budgeting

Budgeting Principles

For those who have the task to develop budgets or to be involved in the process of developing budgets, it is important to have a good knowledge of budgeting principles that can make the difference in the financial health of the organisation. Failure to engage in sound budgeting processes would rank as one of the main reasons why companies and organisations fail.

1 Be conservative not optimistic

The first principle of budgeting is to avoid budgeting on the basis that everything will turn out as expected. Be very cautious about optimistic forecasts. Try to build in a safety factor by tending to **underestimate your income** and **overestimate your expenses**. There will always be unexpected events and therefore a common strategy in developing a budget is to insert an additional expense called "contingencies". This item in the expense budget is an insurance policy against the unforeseen.

2 Team work and consultation

One of the most important principles of budgeting is that it requires teamwork and consultation. Although one person may be responsible for the overall compilation of the budget, one person should not be responsible for all the work involved. The task of budgeting should be split and allocated among those individuals who have the best chance of knowing what expenditure is likely to be needed and what income is reasonable to expect. Involvement by many people in budgeting might slow the process down, but the answer is far more likely to be accurate and dependable.

3 Allow plenty of time

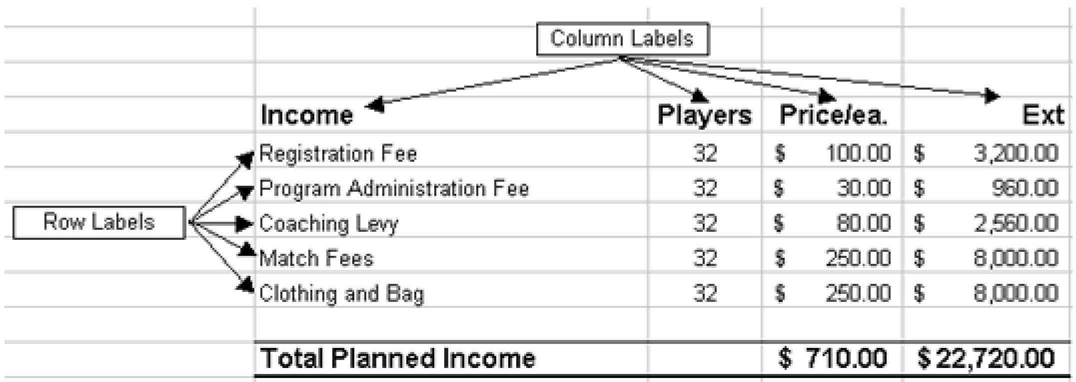
Budgeting is not an activity that is completed in a few hours. A good budget may be worked on for several weeks, if not months, adding and changing figures as new information comes to light. For this reason, budgeting is often referred to as an iterative process. The budgeting process is lengthy because much research and consultation has to be carried out before people involved in the process can be confident of the figures they supply.

4 Excellence in documentation

It is very important that the author(s) of the budget strive to produce documents that can be read and understood by anyone. If budget workings are unclear and figures are not clearly labeled even the author will, as time passes, have trouble understanding where the figures come from and how the calculations were made. It should be assumed that budgeting workings will be:

- Circulated to many different people who may have lower levels of financial literacy
- Useful again in a year's time when the budgeting process begins again. Unless workings are well labeled it may be difficult to remember.

Example of labeling:



Income	Players	Price/ea.	Ext
Registration Fee	32	$ 100.00	$ 3,200.00
Program Administration Fee	32	$ 30.00	$ 960.00
Coaching Levy	32	$ 80.00	$ 2,560.00
Match Fees	32	$ 250.00	$ 8,000.00
Clothing and Bag	32	$ 250.00	$ 8,000.00
Total Planned Income		$ 710.00	$ 22,720.00

Click here for Video Tutorials on Microsoft Excel

5 Provide Training

Ensure people who have a significant role in the budgeting process have a reasonable understanding of the principles of budgeting, how it relates to the strategic and operational plans, and how everyone must live with the consequences of the finalised budget in the year ahead. Training need only be a single meeting in which those who have experience of budgeting provide knowledge to others involved who are less experienced.

6 Get Sign Off

Another one of the important principles of budgeting is to ensure that all persons formally involved in the budgeting process agree to the final iteration of the budget. This agreement by those involved is often referred to as the "Sign Off". In other words, those involved add their signature to the final iteration of the budget. This ensures that there will be no argument later about who agreed to what.

Self-Check -1	Written Test	Short Answer Questions

Directions: Answer all the questions listed below. Use the Answer sheet provided in the next page:

1. 2.“ identfy the principle of personal Budget?

Note: **Satisfactory rating - and points** **Unsatisfactory - below and points**

You can ask you teacher for the copy of the correct answers.

Answer Sheet

Score = ___________
Rating: ____________

Name: _________________________

Date: _______________

. **Short Answer Questions**

1____

____

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2____

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2.3 . A *spreadsheet* for preparing all budget information

How to use a spreadsheet to create a simple budget

Basic Computing, Excel, Featured, Office Apps

- Creating a budget is of one the simplest and most useful tasks you can do using a spreadsheet. By using a spreadsheet, any changes you make to your budget are instantly updated across the whole budget, with totals calculated for you.
- This tutorial shows you how to create a budget using Microsoft Excel 2013. If you're using an earlier version of Excel or a spreadsheet from another company, you'll find the principles and general techniques carry over, even though the menu commands differ.

I'll show you how to create a simple budget summary for a small organization we'll call Bleeding Heart Do-Gooders. You can use the same approach to create a household budget, a budget for a trip or a specific event, and so on

Adding data and formulae

Here's how to create the budget:

1. Open Excel and create a new blank worksheet.
2. No matter what sort of spreadsheet I am creating—a budget, timesheet, whatever—I usually find it's best to leave a couple of rows at the top and a couple of columns at the left empty when I start setting up the spreadsheet. This makes it easy to insert a heading or to reorganize the design—it's amazing how often you discover you should have allowed for another column or row, and while it's easy to insert these later it's even easier to allow a little space to start with.
   So, click in cell C4 (that is, column 4 row C) and type 'Income' (don't include the quotation marks).
3. Now we're going to start listing our income categories and the amounts budgeted for each, so:

1. Click in cell D5;
2. Type 'Donations';
3. Press the Tab key;
4. Type '50,000';
5. Press Enter;
6. Type Grants;
7. Press the Tab key;
8. Type '75,000';
9. Press Enter.

Do you notice how you press the Tab key to move between columns and the Enter key to move down to the next row starting in the first data entry column? It's quite different from how things work in most other programs, but you'll find it's a consistent feature of spreadsheet programs.

4. Let's add one more entry in the Income category:
1. Type 'Miscellaneous' and press the Tab key;
2. Type '1000'.

Self-Check -2	Written Test	Short Answer Questions

Directions: Answer all the questions listed below. Use the Answer sheet provided in the next page:

1. 2.“ discuse how to use a spreadsheet to create a simple budget**?**

***Note:* Satisfactory rating - and points Unsatisfactory - below and points**

You can ask you teacher for the copy of the correct answers.

Answer Sheet

Score = ___________

Rating: ____________

Name: _________________________ Date: _______________

1____

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2____

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2.4. Explain the difference between fixed and variable expenses

- **Variable costs** vary with the amount produced. **Fixed costs** remain the same, no matter how much output a company produces. A **variable cost** is a company's **cost**that is associated with the amount of goods or services it produces. ... On the other hand, a **fixed cost** does not vary with the volume of production.

The Definition of Fixed Expenses

Fixed expenses cost the same amount each month. These bills cannot easily be changed and are usually paid on a regular basis, such as weekly, monthly, quarterly or from year to year.

It's much easier to budget for fixed expenses than a variable expense or discretionary expense.

Typical household fixed expenses are mortgage or rent payments, car payments, real estate taxes and insurance premiums. While you could theoretically change your monthly mortgage payment by refinancing your loan or by appealing your property tax assessment, this is not an easy switch.

The same is true if you pay rent. You could change this expense by moving to a cheaper home or getting a roommate, but these are major lifestyle changes.

Your health insurance, car insurance, life insurance, and homeowners or renters insurance are also examples fixed costs. You would have to spend several hours researching alternate plans to change these monthly payment amounts.

The Benefits of Saving Money on Fixed Expenses

The major lesson here is that in spite of its name, "fixed" expenses are not necessarily set in stone. If you lose your job or aggressively want to start saving, you could devote a few hours to culling your fixed expenses.

Since fixed expenses typically represent the biggest chunk of your budget, the money you save in this category can be quite substantial.

Saving money on fixed costs has a second advantage: you won't feel as though you're curbing your lifestyle. Shopping around for a cheaper health insurance premium or a less expensive cellular phone plan will only require a few hours of your time each year.

Once you've found these low-cost vehicles, you'll automate frugal choices into your monthly budget.

In other words: lowering your fixed monthly bills won't make you feel like you're being frugal because most people don't think about their monthly fixed costs. You'll "feel the pinch" much more when you make day-to-day decisions like “Should I eat at a restaurant tonight?” or “Should I buy those jeans?”

The Definition of Variable Costs

Variable expenses represent those daily spending decisions like eating at a restaurant, buying clothes, drinking Starbucks, and playing a round of golf with your buddies.

These costs are not considered variable because they’re discretionary. Rather, they're "variable" because the amount that you spend differs from month-to-month.

While most variable costs represent discretionary spending (such as restaurants, Starbucks, and golf), some variable costs represent necessities.

Most families, for example, spend variable amounts of money on groceries each month. Most people spend variable amounts each month on putting gasoline in their cars and paying for necessary car repairs and maintenance.

Saving on Variable Expenses

Variable costs are usually the first expenses that people try to cut when they need to start saving money. Unfortunately, variable costs are also some of the toughest expenses to cut back on, because it requires a daily commitment to frugal decision-making.

Trimming a fixed cost, like your cell phone plan (or insurance) or your cable package, requires only making a decision once, and then living with that decision for the next several months or years.

Trimming variable costs, on the other hand, requires actively making multiple decisions every day about whether or not to buy certain items or participate in certain events.

Self-Check -3	Written Test

Directions: Answer all the questions listed below. Use the Answer sheet provided in the next page:

1.“ list the step to develope personal of Budget?.

3. expline how to spreedsheet to creat simple budget?.

4. list the example of varible & fixed expense?

5. expline the difference b/n variable & fixed cost?

Note: **Satisfactory rating - 3 and 5 points** **Unsatisfactory - below 3 and 5 points**

You can ask you teacher for the copy of the correct answers.

Answer Sheet

Score = ___________
Rating: ____________

Name: _________________________

Date: _______________

1____

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2____

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2.5. Calculate interest and loan repayments

What is interest?

When you take out a loan, whether it's a car loan, home loan or credit card, you'll have pay back both the amount you borrowed and interest on top of it. But what do we mean by that?

Well, essentially, interest is a fee you pay for using someone else's (usually the bank's) money. It's how lenders make profit from giving out loans - after all, they're not in it out of the goodness of their hearts.

Usually the repayments you make on a loan will be made up of two parts: the part that reduces your balance to pay off your loan, and the part that covers the interest on the loan.

- ***Factors that affect how much interest you pay***

You'll need to know a few basic facts about your loan before calculating how much interest you'll pay. All of these things should be freely available to you before you take on the loan - all anyway, even if you're not trying to calculate interest.

- **Principal amount**

This is the amount you're looking to borrow. But it's not as simple as deciding how much you want - you should really be focusing on how much you can realistically afford to pay back. To work it out, consider your budget on all levels - yearly, monthly and weekly - and think about any life changes you might encounter (are you about to have kids? Make a big move?). Mozo also has some great, free resources to help you straighten out just how much you can borrow, like our:

- Budget calculator
- Savings calculator
- Borrowing calculator

- **Loan term**

How long will you be repaying your loan? Shorter loan terms will generally mean higher repayments, but less interest in the long run, while longer terms will lower monthly repayments, but cost more in interest over the entire life of the loan.
For example, our personal loan repayment calculator shows that on a loan of $20,000 at 8.75% p.a. you would pay:

$634 each month, adding up to $2,812 in interest over 3 years, or

$413 each month, adding up to $4,765 in interest over 5 years.

Repayment schedule

On many loans, you'll have the option to make repayments weekly, fortnightly or monthly. Which one you choose will depend on your budgeting style. More repayments means less interest, because of the effects of compounding, so weekly repayments will save you some money. But before you commit to a weekly repayment schedule, make sure that your budget can meet it!

Repayment amount

When you make your repayment, not all of it goes to paying off your loan, as such. A certain amount will go towards paying the interest first and then what's left chips away at your loan principal. Because the amount of interest you pay depends on what your principal is, to calculate ongoing interest costs, you'll need to know what amount you're making in repayments.

Interest rate

When calculating interest on your loan, remember to use the basic annual interest rate and not the comparison rate to get accurate numbers. The comparison rate takes into account fees and charges as well as interest, so if you use it, you will get a higher amount of interest than you should.

Calculating interest on a car, personal or home loan

These loans are called amortizing loans - which means that the mathematical whizzes at your bank have worked them out so that you pay a set amount each month and at the end of your loan term, you'll have paid off both interest and principal.

You can use an interest calculator to work out how much interest you're paying all up, or, if you'd rather do it by hand, here's how:

1. Divide your interest rate by the number of payments you'll make in the year (interest rates are expressed annually). So, for example, if you're making monthly payments, divide by 12.

2. Multiply it by the balance of your loan, which for the first payment, will be your whole principal amount.

This gives you the amount of interest you pay the first month.

So for example, on a personal loan of $30,000 over a period of 6 years at 8.40% p.a. and making monthly repayments:

Because you've now begun to pay off your principal, to work out the interest you pay in the following months, you need to first calculate your new balance. So:

1. Minus the interest you just calculated from the amount you repaid. This gives you the amount that you have paid off the loan principal.

2. Take this amount away from the original principal to find the new balance of your loan.

Self-Check -4	Written Test	Short Answer Questions

Directions: Answer all the questions listed below. Use the Answer sheet provided in the next page:

1.“ what is interest?.

2.“ discuse the factor that affect interest?

3. identfy the principal?.

Note: **Satisfactory rating - and points** **Unsatisfactory - below and points**

You can ask you teacher for the copy of the correct answers.

Score = ___________

Rating: ____________

Answer Sheet

Name: _________________________

Date: _______________

1____

____

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2____

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2.6.Calculate Surplus or deficit budget

Surplus for a state:

Surplus for budget = tax income –budget expense, because states are not allowed to create money.

A negative surplus is a deficit.

A nation creates money called fiscal deficit at zero cost. This money feeds the economy.

- **fiscal deficit** = trade deficit + net private savings
- **trade deficit + private savings - private investments ,**

which is the source of money to the economy. Tax does not figure in this money balance.

In short, **fiscal deficit** and budget **surplus** are similar.

"Cut the deficit" is a slogan of ignorance.

5.4k views · View 3 Upvoters

Benjamin Metcalfe Pacini, studied Economics & Political Science at Brigham Young University (2010)

Surplus and deficit are easy.

Surplus is when you earn more than you spend. This is true for individuals and countries. If I make $100, and only spend $20, the surplus is $80.

The deficit is the opposite side of the coin: the amount that you spend that is more than what you earn. If you make $100, and spend $140, then your deficit is $40.

Deficits can only be paid with debt, or by using up savings. Running a deficit for a long time is dangerous, because it's difficult to pay down everything that you owe. Countries that get into this situation can get into a crisis, where they can no longer attract people willing to lend them money. When this happens, interest rates start to go up, because investors won't take on the risk unless they get a higher price. This makes it worse for countries because they have to pay even more toward paying off their debts. Countries can't really go bankrupt (cancel their debt) so instead, they stop paying what they owe. This is called defaulting, and it causes lots of problems.

Some people confuse "debt" with "deficit." It's important to know that there's a difference. Debt is the total amount that you owe. Deficit is how much you are adding to your debt. If I owe $1,000 in debt, and am spending $200 per month, and earning only $150, then my deficit is $50, but my debt is currently $1,000.

This is why it is imperative to identify who your customers are, find out what they want and budget dollars to put systems and processes in place to meet their needs and exceed their expectations.

Isn't that what we are all trying to do?

If you would like to learn about budgeting for a small business, I love the Dummy books, Small Business Financial Management Kit For Dummies might be a great reference for you!

- ➢ All income and expenses for a six month period are recorded to assist in estimating expenditure requirements
- ➢ A ***spreadsheet*** for recording all budget information is obtained or developed and established to record income and expenditure for a relevant period of time
- ➢ All ***sources of income*** and regular ***fixed expenses*** and ***variable expenses*** for the specified period are identified and listed in a personal budget using the budget spreadsheet
- ➢ Total expenses recorded are subtracted from the total income to determine a surplus or deficit bu dget for the specified period

Reasons for a deficit budget are explored if relevant and ***ways to reduce expenses or increase income*** are investigated

- ➢ Allocation of surplus funds towards saving and meeting identified financial goals is explored

❖ ***The different groups*** who may budget may include families

- governments
- individuals:
- ➢ single
- ➢ married
- ➢ elderly
- ➢ traine

tourists, travelers

Different stages of life may include:

✓ approaching and during retirement

- ✓ buying your first home
- ✓ moving out of home
- ✓ starting a family

studying.

__Obstacles;__ that might prevent financial goals being achieved may include:

being unemployed, particularly long term unemployed

insufficient income to afford items that are beyond the individual's means

unexpected circumstances such as:

- ➢ losing a job
- ➢ falling ill

not being able to work.

- ✓ ***Behaviours and skills*** required for successful budgeting may include: role led spending

disciplined approach to money

organisational skills

record keeping skills

- A ***spreadsheet*** may

be simple or complex depending upon the extent of the individual's finances

have one section for recording all money received as income and another section for expenses both variable and fixed have a section to record the difference between income and expenses for the period, this being the surplus or deficit financial situation for the period.

Sources of income may include: interest on investments, dividends

proceeds from sale of assets

social security benefits, pensions, allowances, child assistance

wages, commission, bonuses, tips.

1.Fixed expenses may include

fees:

- ➢ school and university fees

- bank fees

insurance

loan repayments (if loan is based upon fixed interest rates) such as:

- personal loans
- car loans
- credit card debts
- Higher Education Contribution Scheme

public transport

rent

subscriptions to:

- magazines
- newspapers
- clubs

2. **Variable expenses** may include

car maintenance

living expenses such as:

- food
- clothing
- medical

loan repayments if loan is based upon variable interest rates

miscellaneous expenses such as:

- gifts
- recreation
- entertainment
- fines

mobile telephone

mortgage repayments

utilities such as:

- water
- gas
- electricity

telephone

2.7.1 Ways to reduce expenses may include

- comparing prices for essential items
- monitoring use of utilities such as electricity, gas and water
- moving back home
- reducing expenditure on discretionary items such as expensive clothing, magazines, eating out
- share accommodation
- using cheaper modes of transport

3.1.1 Comparing actual expense and income with budget expense and income for allocation of budget

Budget performance results

- **Zero**:- if budget and actual expense & income to be equal (the same)

Expense **Shortage**: -If your budget is less than actual expense

Surplus: - If our budget is greater than actual expense

Income **shortage: -** If our budget is greater than actual expense

Surplus:-If your budget is less than actual income

Self-Check -5	Written Test

Directions: Answer all the questions listed below. Use the Answer sheet provided in the next page:

1. explain the differenc b/n surpluse budget & defice budget?

2.list the way to reduce expense?

Note: **Satisfactory rating - 1 and 2 points** **Unsatisfactory - below 1and 2 points**

You can ask you teacher for the copy of the correct answers.

Answer Sheet

Score = ___________

Rating: ____________

Name: _________________________

Date: _______________

1____

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2____

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Example 1.Assume that mr.gemechu has the following budgeted and actual income and expense and saving as follows

Task	September 1 budget	September 30 actual	October 1 budget
Income	1600 birr	1600 birr	1600 birr
Rent expense	500	500	500
Utility expense	300	350	300
Educational payment	200	250	200
Gift & contribution	100	90	100
Saving	200	200	200
House operation	300	280	300

Activity 1:- prepare budget performance for September month

Activity 2:- prepare budget allocation for October month

Activity one answer

Task	September 1 budget	September 30 actual	Budget performance (variance)
Income	1600 birr	1600 birr	Zero
Rent expense	500	500	Zero
Utility expense	300	350	Shortage by 50
Educational payment	200	250	Shortage by 50
Gift & contribution	100	90	Surplus by 10
Saving	200	200	Zero
House operation	300	280	Surplus by 20
Total shortage = 100 Total surplus = 30 In general MrGemechu personal budget performance is shortage by 70 birr			

Activity two answers

Task	October 1 budget	Allocation	New allocation budget For October 1
Income	1600 birr	(70)Birr	1530
Rent expense	500	0	500
Utility expense	300	Shortage 50 birr	250
Educational payments	200	Shortage 50 birr	150
Gift & contribution	100	Surplus 10 birr	110
Saving	200	0	200
House operation	300	Surplus 20	320

Example 2 Assume MRX has the following budget income expense for the month of October1

Task budget for October 1

Income …………………….. 1200

Rent expense ………………... 400

Utility expense ………………. 200

Saving ………………………… 200

House operation ……………… 200

Loan payment ……………….. 200

Actual income and expense for October 30

Activity October actual

Income …………………….. 1200

Rent expense ………………... 400

Utility expense ………………. 200

Saving ………………………… 200

House operation ……………… 200

Loan payment ……………….. 200

November 1 budget

Task October actual

Income …………………….. 1200

Rent expense ………………... 400

Utility expense ………………. 200

Saving ………………………… 200

House operation ……………… 200

Loan payment ……………….. 200

Activity one: - prepare budget performance for October?

Activity two: - prepare budget allocation for November

Solution for activity one:-

Task	Budget oct	October 30 Actual	Budget performance
Income	1200 birr	1200	Zero
Rent expense	400	400	Zero
Utility expense	200	180	Surplus by 20 birr
Saving	200	180	Shortage by 20 birr
House operation	200	210	Shortage by 10 birr
Loan payment	200	170	Surplus by 30 birr

Total shortage = 30 birr

Total surplus = 50 birr

Balance of budget performance = 20 birr surplus

Solution for activity two

Task	November budget	Allocation	New allocation budget
Income	1200 birr	+20 birr	1220 birr
Rent expense	400	Zero	400
Utility expense	200	Surplus 200	220
Loan payment	200	Surplus 30	230
Saving	200	Shortage 20	180
House operation	200	Shortage 10	190

Self-Check -6

The family of abebe has tow children the total income of the family for the month of April is birr 3,800.

N.o	Description	Budget allocation for month April	Budget actual expenditure for month April
1	Food	1,220	1,250
2	House rent	835	845
3	Cloth's	725	735
4	Utility	520	535
5	Medical	395	445

Task:-1 how much saving per month

Task:- 2 prepare variance of April

Task:- 3 prepare budget performance report for April

Answer Sheet

Score = ____________

Rating: _____________

Name: __________________________

Date: ________________

1____

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2____

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Example 3:- Assume that Mr. has monthly income for September 1 400 and the following expense listed:-

Task	Sep 1 budget	September 30 actual	October budget
Rent expense	400 birr	400 birr	400 birr
Utility expense	300	250	300
Educational expense	300	300	300
Saving	200	200	200
Loan payment	200	200	200

Activity three (answer)

Calculate the percentage saving

% saving = saving value x100%

May income

%saving for = 200/1400 x 100% = 14.28 %

% saving for = 200/1400 x 100%= 14.28 %

Monthly income

% saving = 70 x 100% = 3.589%

1950

Example 5 Ato Abel has a monthly income 3000 birr and he set expense beyond a monthly income

Required

1. Prepare budget for October 1
2. Prepare budget variance
3. How much money save from total income

Solution One

Description	October 1 Budgeting in percentage	Budget for October
Car maintenance	35 %	35 % x3000 = 1050 birr
Medical health	10%	10%x3000= 300 birr
Transport	15%	15%x3000 = 450 birr
Utility	10%	10%x3000 = 300 birr
Entertainment	8%	8%x3000= 240 birr
Food	5%	5%x3000 = 150 birr
Dry cleaning	5%	5%x3000 = 150 birr
Educational payment	3%	3%x3000 = 90 birr
Saving	9%	9%x3000 = 270 birr

Solution 2

Description	October budget in birr	Actual October	Variance (budget performance)
Income	3000	3000	Zero budget
Car maintenance	1050	1000	50
Medical health	300	350	50
Transport	450	400	50
Utility	300	250	50
Entertainment	240	250	10
Food	150	150	0
Dry cleaning	150	200	50
Educational payment	90	125	35
Saving	270		

Solution 3 how much money to be saves from total income?

Net save amount= 9%x3000= 270 birr

Self-Check -7

- **Ato gemichu ayana net income of the Month** of June **4,000**

No	Descriptions	Budgeted rate for the month of June	Budgeted Expenditure in Birr for the month of June	Actual Expenditures for the Month of June
1	Food & Groceries shelter	32%		1000
2	Rent Expense clothes	9%		350
3	Clothing & Laundry	15%		400
	Other Basic need & expenses			
4	Medical	10%		250
5	Transportation	12%		250
6	Utilities	3%		125
7	Loans	5%		150
8	Recreation Entertainment	5%		200

4.1. Prepare the Budgeted Expenditure in Birr for the month of June

4.2. Prepare the budgeted variance for the month of June

4.3. How much would be your net saving for month June in terms of percent & Birr.

Answer Sheet

Score = ___________

Rating: ____________

Name: _________________________

Date: _______________

1____

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2____

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3.Implement and monitor the personal budget

- The budget is followed according to plan for a period of time. Actual expenses and income for the period during which the budget is implemented are recorded and compared to budgeted expenses and income with any differences in budgeted and actual amounts looked at and the budget modified where necessary
- ***Ways to reduce expenses*** may include: comparing prices for essential items

monitoring use of utilities such as electricity, gas and water

moving back home

reducing expenditure on discretionary items such as expensive clothing, magazines, eating out

share accommodation

- ***Variable expenses*** may include: car maintenance

living expenses such as:

- food
- clothing
- medical

loan repayments if loan is based upon variable interest rates

miscellaneous expenses such as:

- gifts
- recreation
- entertainment
- fines

mobile telephone

mortgage repayments

utilities such as:

- water
- gas

- electricity
- telephone.

- ***Ways to reduce expenses*** may include: comparing prices for essential items

monitoring use of utilities such as electricity, gas and water

moving back home

reducing expenditure on discretionary items such as expensive clothing, magazines, eating out
share accommodation

- ***Handy hints*** for managing the personal budget are discussed

Ongoing review of the budget is conducted to ensure it remains relevant and to ensure updates are incorporated if necessary

- ***Handy hints*** may include discussing how to avoid getting into financial difficulties

how to minimise fees and charges imposed by financial institutions
how to use credit card debt effectively
the problems of impulsive buying, particularly when under peer pressure
ways to cut back on spending or change negative spending habits.

3.1 prepare and implement a personal budget

Budgetary or appropriation accounting consists of tracking and registering operations concerning appropriations and their uses. It should cover appropriations, apportionment, any increase or decrease in appropriations, commitments/obligations, expenditures at the verification/delivery stage, and payments. As indicated in chapter 10, budgetary accounting is only one element of government accounting system, but it is the most crucial for both formulating policy and supervising budget implementation. In particular, weaknesses in budgetary accounting and recording make quality analysis of the performance, outputs or outcomes impossible (see chapter 15 for an elaboration). Most developed countries keep registers for their transactions at each stage of the expenditure cycle, or at least at the obligation stage and the payment stage. This, whatever their accounting system or budget execution procedures. Many developing countries keep similar registers, either at the spending agency level or through centralized control procedures2 . However, in both cases, budgetary accounting presents inadequacies. On the one hand, when registers are kept by agencies, information is not systematically available at the level of the Ministry of Finance, which would need it to supervise budget implementation. In practice, in some of these countries budgetary accounting covers only payments. On the other hand, where control procedures are centralized, sometimes information on budget execution concerns administrative steps that do not correspond to the stages in the expenditure cycle described in chapter 6.3 Such "administrative" information is useless for analyzing budget implementation. In FSU countries, spending agencies keep books on an "accrual" basis (although not in conformity with generally accepted accounting principles). Such arrangements, despite their advantages, created difficulties in the timely monitoring of payments according to the budget classification. Therefore, in these countries efforts are currently focused on the implementation of a system of monitoring payments. 2 The benefits of monitoring either obligations or expenditures at the verification stage or the payments stage are sometimes debated. Actually, information is needed at each stage of the expenditure cycle and can be easily compiled, thanks to developments in electronic technology. Adequate recording of appropriations, revisions in appropriations, transfers between appropriations, apportionment, etc. is a prerequisite for good management. In several developing countries, it is difficult to know exactly which budget is being implemented, because decisions concerning allocations and reallocations of appropriations are contained in various circulars and are not gathered into a single document. The budget implementation plan should be updated regularly to take into account decisions concerning appropriations. Accounting commitments/obligations (obligational accounting4) is essential in keeping budget implementation under control. They provide the basis for budget revisions. Decisions to increase or decrease appropriations and the preparation of cash plans must take into account commitments already made. For internal management, spending agencies need to follow up accurately the orders and the contracts they have awarded. Accounting for expenditures at the verification stage (sometimes called expenditure accounting) is important to program and agency management. It gives elements for assessing costs, although these elements need to be completed with information on depreciation, inventories, etc. Expenditures at the verification stage show how far program and project implementation has progressed. In chapter 11 the preparation of reports on development expenditures at the verification stage is recommended. Recording expenditures is also required for managing payables and contracts. It is a requirement of any accounting system that recognizes liabilities. Some countries that have non-pure cash accounting system do not report payments along the budget classifications (see chapter 7). Actually, expenditures should be recorded according to the budget classification at each stage of the expenditure cycle, to identify sector or program imbalances at that stage. 3 A comprehensive and timely monitoring of budget transactions could be ensured with adequate information systems recording transactions at each stage of the expenditure cycle, and appropriate electronic connections between the “Ministry of Finance” and line ministries. Basic financial controls can be automated and made when registering the transactions. To some extent, differences between budget executions systems based on external ex-ante control and system based on internal controls are dimming with modern technologies. Nevertheless, implementing an information system is not a panacea. It is costly, but overall it requires appropriate budget accounting procedures that do not exist in many developing countries. Computers do not make up for poor governance and systemic lack of compliance. In such situations, they can only increase the number of non-regular transactions and off-budget procedures aiming at overcoming computerized controls.

Self-Check -1	Written Test

Directions: Answer all the questions listed below. Use the Answer sheet provided in the next page:

1.“ list the step to implement & moniter personal budget?.

2.“ identfy the principle of personal Budget?

3. expline how to spreedsheet to creat simple budget?.

4. list the example of varible & fixed expense?

5. expline the difference b/n variable & fixed cost?

Note: **Satisfactory rating - 3 and 5 points** **Unsatisfactory - below 3 and 5 points**

You can ask you teacher for the copy of the correct answers.

Answer Sheet

Score = ___________

Rating: ____________

Name: _________________________

Date: _______________

1____

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3.2 Implementation of budget

Step 1

Calculate your recurring monthly expenses, such as your electric, cable, credit card, Internet and phone bills, as well as your car and insurance payments and your monthly housing rent or mortgage. If you pay some bills annually, such as your car insurance, just divide the figure down to a monthly cost.

Step 2

Factor in how much you want to put into savings each month. Treat this amount like a monthly bill. Put it in savings and forget about it. If pinching pennies and staying in a budget feels like a foreign concept, start small and gradually increase the amount as you become more comfortable with tighter purse strings.

Step 3

Subtract your total recurring monthly expenses from your monthly income after taxes. Divide the remaining amount by 4.33 -- which is the average number of weeks per month, although some are more and some are less -- to obtain a weekly figure for how much you should be spending on things like groceries, gas and going out.

Step 4

Compare this amount to the amount you recorded during the preparation phase. Hopefully, you aren't spending more than you actually have. If you are, review your expenses to see what you need to cut or reduce in order to get out of the red. Use the extra money to pay down those credit cards first and keep some put aside for fun stuff – this way you won't use your credit cards for concert tickets.

Step 5

Establish goals based on the calculations you have made and, most important, stick to them. Track your weekly spending. It may take a few weeks but eventually that increase in your savings account will make up for all the brown bag lunches you are bringing to work, instead of frequenting that nearby bistro.

Self-Check -1	Written Test	Short Answer Questions

Directions: Answer all the questions listed below. Use the Answer sheet provided in the next page:

1. “ define the Budgets?.
2. What means the personal Budgets?

Note: **Satisfactory rating - 1and 2 points** **Unsatisfactory - below 1and 2 points**

You can ask you teacher for the copy of the correct answers.

Answer Sheet

Name: ___________________________

Date: ________________

Score = ___________

Rating: ____________

Short Answer Questions

1____

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2____

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3.3.Handy hints for managing personal budget

➢ ***10 Steps to Developing and Managing a Budget***

1. Strategic Plan

Every organization, no matter the size should know why it exists and what it hopes to accomplish. This is articulated through a written Vision and Mission Statement. A Strategic Plan is the **HOW** the organization plans to achieve its mission.

The first step in the budgeting process is having a written strategic plan. This ensures that organizational resources are used to support the strategy and development of the organization. It means budgeting toward the vision.

2. Business Goals

Annual business goals are the steps an organization takes to implement its strategic plan and it is these goals that need to be funded by the budget. Goals need to be developed and there needs to be accountability for achieving goals, which is the responsibility of the management team, board or business owner.

The budget provides the financial resources to achieve goals. For example, if your organization has outgrown its facility and there is an objective to increase space, there needs to be dollars budgeted to expand or move the business operations.

3. Revenue Projections

Revenue projections should be based on historical financial performance, as well as projected growth income. The projected growth may be tied to organizational goals and planned initiatives that will initiate business growth.

For example, if there is a goal to increase sales by 10%, those sales projections should be part of the revenue projections for the year.

4. Fixed Cost Projections

Projecting fixed costs is simply a matter of looking at the monthly predictable costs that do not change. Employee compensation costs, facility expenses, utility costs, mortgage or rent payments, insurance costs, etc.

Fixed costs do not change and are a minimum expense that need to be funded in the budget. For example, if there are open staff positions, the cost to fill those positions should be part of fixed cost projections.

5. Variable Cost Projections

Variable costs are costs that fluctuate from month to month, supply costs, overtime costs, etc. These are expenses that can and should be budgeted and role led. For example, if higher Christmas sales drive overtime costs temporarily, those costs should be budgeted.

6. Annual Goal Expenses

Goal related projects should also be given budgets. Each initiative should have projected costs associated with the goals. This is where the cost of implementing goals are incorporated into the annual budget. Projections of costs should be identified, laid out and incorporated into the departmental budget that is responsible for completing the goal.

For example, if the sales department has a goal of increasing sales by 10%, costs associated with the increased sales (additional marketing materials, travel, entertainment) should be incorporated into that budget.

7. Target Profit Margin

Every organization, whether they are for-profit or not-for-profit, should have a targeted profit margin. Profit margins allow for returns for the business owner or investors.

Not-for-profit organizations use their profit margins to reinvest into the facilities and development of the organization. Profits are important for all organizations and healthy profit margins are a strong indicator of the strength of an organization.

8. Board Approval

The governing board, president, owner or head of the organization should approve the budget and keep current with budget performance. Again, similar to your personal finances, the owner should be reviewing monthly financial statements for the following reasons.

- To monitor budget performance.
- To be familiar with all expenditures.
- To safeguard the organization against misappropriation of funds or employee fraud.

9. Budget Review

A budget review committee should meet on a monthly basis to monitor performance against goals. This committee should review budget variances and assess issues associated with budget overages.

It is important to do this on a monthly basis so there can be a correction to overspending or modification to the budget if needed. Waiting until the end of the year to make corrections could have a negative affect on the final budget outcome.

10. Dealing With Budget Variances

Budget variances should be reviewed with the responsible department manager and questions should be raised as to what caused the variance. Sometimes unforeseen situations arise that cannot be avoided so it is also important (just like your personal budget) to have an emergency fund to help with those unplanned expenditures.

For example, if the HVAC system suddenly goes down, and needs to be replaced, this would be a budget variance that needs to be funded.

Good budgeting processes can help develop and advance an organization, while sloppy budgeting and monitoring of budgets can blindside an organization and affect its long-term financial health and viability.

Self-Check -3	Written Test

Directions: Answer all the questions listed below. Use the Answer sheet provided in the next page:

1.“ list the managed personal of Budget?.

2.“ expline strategic plan in contxet of personal budget?

3. define busines goal?.

4. list to how to monitor budget performance?

5. expline budget varience?

Note: **Satisfactory rating - 3 and 5 points** **Unsatisfactory - below 3 and 5 points**

You can ask you teacher for the copy of the correct answers.

Answer Sheet

Score = ___________

Rating: ____________

Name: ________________________

Date: ______________

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3____

Example 1

The family of mussie has Childers & wife

The total income of the family for the month of January is birr 1950 during the month of January and February the family has the following budget allocation and actual expenditures for the month of January.

Description	Budget allocation for January	Actual expenditure	Budget for February
Housing operation	675	774	675
Food expenuse	560	575	560
Transportation expense	200	172	200
clothing	130	105	130
medical care	90	57	90
education	80	79	80
Gift contribution	70	80	70
Saving	70	70	70
Miscellaneous	75	72	75

Task 1:- prepare budget performance report for the month of January

Task 2:- prepare budget allocation for the month of February

Task 3:- what is the percentage saving for family

Solution for activity 1

Prepare budget performance for January

Description	Budget for January	Actual expenditure	Variance (budget performance for January)
Income	1950	1950	Zero beget
House operation	675	774	Shortage by 99 birr
Food expenses	560	575	Shortage by 15 birr
Transportation expense	200	172	Surplus by 28 birr
clothing	130	105	Surplus by 25 birr
medical care	90	57	Surplus by 33birr
education	80	79	Surplus by 1 birr
Gift contribution	70	80	Shortage by 10 birr
Saving	70	70	Zero beget
Miscellaneous	75	72	Surplus by 3birr
Total surplus= 28+25+33+1+3= 90 birr net balance= 124= 90 Total shortage = 99+15+10= 124 birr = 34 birr shortage			

Solution 2 prepare new budget allocation for February

Description	Budget for February	Allocation	New allocation budget for February
Income	1950	(34)	1916
House operation	675	(99)	576

Food	560	(15)	545
Transportation	200	28	228
clothing	130	25	155
medical care	90	33	123
education	80	1	81
Gift contribution	70	(10)	60
Saving	70	0	70
Miscellaneous	75	3	78

Task 3:- Answer calculates percentage saving

Percentage saving = saving amount x100%

Description	October 1 Budgeting in percentage	Actual expense for October
Car maintenance	35 %	1000
Medical health	10%	350
Transport	15%	400
Utility	10%	250
Entertainment	8%	250
Food	5%	150
Dry cleaning	5%	200
Educational payment	3%	125
Saving	9%	-
Total	100%	-

Self-Check -4

Develop personal budgets and saving

The family of KEBEDE has two children's husband and wife. The total income of the family for the month of January is birr 2,850 .during the month of January and February the family has the following budget allocation and actual expenditures for the month of January.

description	Budget allocation for January	Actual expenditure for January	Budget for February
House operation	775	874	775
Food	660	675	660
Transportation	300	272	300
Clothing	230	205	230
Medical care	190	157	190
Education	180	179	180
Contribution and gift	170	180	170
Saving	170	170	170
miscellaneous	175	172	175

TASK 1;- prepare budget performance report for month of January?

TASK 2:- prepare budget allocation for the months of February.

TASK 3:- what is the percentage of saving for the family?

Score = ___________

Rating: ____________

Answer Sheet

Name: ________________________

Date: ______________

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2____