

Life Skills Development/Module Four/Money Management

UNIT ONE

Introduction

Budgeting is considered as a very important step in assisting and controlling your day to day spending. However budgeting consumes time and energy. This unit will expose trainees to creating and tracking their budget more wisely and economically.



Objectives

Unit 1 of Module on Money Management: Budgeting

Upon completion of this unit the learner will be able to:

- Demonstrate an understanding of basic personal budgeting skills,
- Practise comparative shopping for basic needs especially nutrition needs,
- Formulate a personal budget based on current financial resources, as a tool for meeting basic needs and proper financial management.



Reflection

- Am I good at handling money? In what way?
- How do I know when I am overspending?
- Should I wait until I have a higher income to start budgeting?

Definition

Money Management - managing your personal finances and achieving maximum gains

Budget - List of all planned expenses. This includes revenue, total expenditure and capital expenditure

Tracking - capturing and maintaining information about the use of finances. It can also guide you to control your budget better.



What is a Budget?

A budget can be described as a tool that can be used to plan income and expenditure. It also serves as a guide to assist you in managing individual's finances.

How to create a Budget.

When creating a budget you need to have specific categories for major expenses as well as miscellaneous expenses. Major expenses include the following; food, clothing, electricity, rent etc. Miscellaneous expenses may cover items that are not of primary importance, however also need to be considered when budgeting for proper management of finances.

Tracking your budget.

The following practices can be followed to assist in tracking ones budget; If you purchase any item you have to write it down. Keep a journal and write down all the unexpected purchases. Enter the date as well as totals of the purchase items on the appropriate column.

Determining how much to spend.

It is important for every family to agree and for individual like you to establish your priorities. The following percentages will give you suggestions on what should be spent out of your income on some of the major expenditure components. Work out your expenditure using these percentages and using your own disposal income.

How different this expenditure from what you actually spend?

Housing	30%
Transportation	10%
Debt	15%
Saving (short/long term)	10%
Food	10%
Recreation	5%
Others (eg, clothing, medical bills, gifts, etc)	20%
TOTAL	100%

Activity

Tracking Your Spending:

Keep a record of everything you spend money on to complete an accurate picture of your monthly expenditure.

List every item you have spent money on today. List every item you have spent money on yesterday.

Use this as an example for your Tracking List

Date	Item	Cost
	Bottle of water	\$5.00
	2 Cadbury's chocolates	\$40.00
	Taxi fare	\$10.00
	3 shirts	\$89.00
	Running shoes	\$250.00
	Sandals	\$350.00
	Total	\$744.00

Use the table below to identify your needs and wants.

Item	Cost	Need	Want
Bottle of water	\$5.00	/	
2 Cadbury chocolate	\$40.00		/
Sandals	\$350.00	/	
Running shoes	\$350.00	/	
3 shirts	\$89.00	/	
4 yards of Fabric	\$125.00		/



Self Assessment

Question: Do you do much impulse buying or do you do comparative shopping? Write your reflections on the way you use your money.

Impulse Buying is your purchase of non-essential consumer goods without prior planning. The decision to buy usually is made at the point of purchase, as, for example, an ice-cream cone purchased from a street vendor or Cadburys' chocolate purchased from the items near the cash register.

Comparative Shopping occurs when you decide on comparing prices from various shopkeepers and then make your purchase. You take into consideration prices from other shops and substitute goods before you buy.

Budgeting Activities

Having a **budget** that details all your income and expenditure will help you to maintain control of your finances and, if necessary, help to illustrate the problems you may be having to your **creditors**.

Step 1 - Start with the reality of your current situation.

Income to budget: Make a conservative estimate of your annual income and divide it by 12 to get a monthly figure.

You also need to work out expenses that do not necessarily occur every month, such as insurance, holidays, car repairs, vet bills etcetera. Estimate how much you spend on these each year and then divide by 12 to determine your monthly cost.

Step 2 - Complete a monthly budget

Crystal is 18 years old. This is her budget for June 2007. She has a disposable income of \$2000.00. She is planning to spend more than her income.

Transportation	\$400.00
Laptop computer	\$500.00
Dog chow	\$200.00
Clothing	\$100.00
Food	\$200.00
Recreation	\$300.00
Saving	\$486.00
TOTAL	\$2186.00

Step 3 - Evaluate and reduce your spending If you have maximized your disposable income, the only alternative solution is to increase your budget surplus by reducing your spending.

The first thing to do is look at your expenses (as detailed in the step 2). Ask yourself the following 3 questions for each category:

- Is this category absolutely necessary?

- If not can we do without it? (Is it a want or a need?)
- If not can you substantially reduce your spending?

Once you have identified the areas where substantial reductions can be made, you will need to think of ways to actually achieve your goal. Below is a list of ideas to help you get started:

- **Housing** - look for Do It Yourself opportunities and shop carefully for furniture and appliances. Take advantage of genuine sales wherever possible.
- **Transport** - do what you can to use one car and perform routine maintenance yourself. If you are going to a nearby town try to use public transport.
- **Utility Bills**- make sure you are with the cheapest supplier for gas and electricity and use only as you need. You would be surprised how much you can save by remembering to turn off the light when you leave a room.
- **Food** - prepare packed lunches for work and school. When purchasing food prepare a list and stick to it. Try to use money off coupons from papers and magazines where possible.
- **Clothing** - plan your spending in advance and do not over purchase.
- **Insurance** - shop around for the best deal and make sure you only get the cover your family really needs.
- **Entertainment/Recreation** - draw up a list of things you and your family can do in the vicinity of your home that are cheap or completely free. Try to stick to a limit on spending money and holidays and book accordingly.
- **Savings** - open a separate savings account where you can deposit the required monthly allowance for bills that do not fall due on a regular monthly basis or to deposit monthly amounts to help save for a holiday.



Assignment

Take a look at the table below and create your own budget to use from this month.

#	Budgeting Priorities	Fixed Expenses	Flexible Expenses	Total
1	Housing			
2	Transportation			
3	Debts			
4	Utility Bills			
5	Electricity/Gas			
6	Telephone Bills			
7	Food			
8	Clothing			
9	Insurance			
10	Entertainment/Recreation			
11	Savings			
12	Other			
13	Total			

Follow this link for an Alternative Household Budget for you to copy and use.

Checklists of Performance Tasks

Use the checklist below to assess your own work in Budgeting. Let your friend assess your work and write in his/ her assessment form 1 to 4 as indicated.

#	RUBRIC of performance criteria	4	3	2	1
1	I have written my reflections on how I handle and value money a) overspending b) needing a higher income before I can begin budgeting				
2	I have begun to track in writing how I currently spend my money: beginning with the last two days by recording/listing a) all items purchased b) cost of each item. c) date of each purchase d) put in 3 columns listing				
3	I wrote my reflections on the way I use my money, including a) wasteful spending. b) impulse buying c) comparative shopping				
4	I prepared for my monthly budget by-- a) estimated my annual income and divided by 12 b) working out my expenses, monthly and irregular				
5	I evaluated and reduced my spending; a) differentiating wants from needs b) identifying areas where reductions can be made				
6	I completed my budget by categories; a) housing b) transportation c) debts d) utility e) food f) clothing g) insurance h) entertainment				

Checklists of Performance Tasks

Use the checklist below to assess your own work in Budgeting. Let your friend assess your work and write in his/ her assessment form 1 to 4 as indicated.

#	RUBRIC of performance criteria	V. Well Done	Well Done	OK	Not Ok	Will redo by
1	I have stated in my monthly budget what I want to spend on food.					
	a)list of nutritious food and the price of each item.					
	b)Prepared my monthly budget my house/rent expenses.					
	c)Included my monthly budget on my transportation expenses.					
	d) Stated my monthly budget and my other expenditure: recreation, vacation etc.					
	e) Included in my monthly budget, savings.					

Tools for Budgeting

The following tools are helpful for constructing your personal budget. Regardless of the tool used, a budget's accuracy is only as good as the accuracy of your updating budget data; an old budget that does not reflect actual income or expenses is of little use to a current budget.

- Pencil and Paper

A simple budget can be written on a piece of a paper with a pencil, and optionally, a calculator. Such budgets can be organized in three-ring binders or a file cabinet.

- Spreadsheet Software

Spreadsheet software, like Microsoft Excel or OpenOffice.org Calc, helps arrange budgets and performs calculations easily with rudimentary formulas. Spreadsheets can also be used to keep track of expenses.

- Money Management Software

Some software is written specifically for money management. Commercial products such as Quicken and Microsoft Money are designed to keep track of individual account information, such as checking, savings or money-market accounts. These programs can categorize past expenses and display monthly reports that are useful for budgeting future months.

Portfolio Contents

1. Monthly budget including spending on housing, transport, savings etc
2. A list of ways in which a person wastes and saves money each month.
3. A list of nutritious food for a month and the price of each.

Unit summary

In this unit you have learned about controlling spending and why it is necessary to always monitor what you purchase. In addition suggestions have also been provided on how you can plan as well as track your expenditure. Recommendations on what percentage of your budget you can spend on products identified as major or primary have also been provided.

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