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CLASS: VI-VIII Financial Literacy

BUDGETING- BALANCING THE MEANS AND THE ENDS

NEED:

a. It is a condition or situation in which something must be supplied in order for a certain condition to be maintained or a desire state to be achieved.
b. A need is something that is necessary for an organism to live a healthy life.
c. Need are distinguished from want in that, in the case of a need, a deficiency causes a clear adverse outcome.
d. Basic need such as water, air, food and protection from environmental dangers are necessary for an organism to live.
e. A Need can be objective and physical, such as the need for food, or psychological and subjective, such as the need for self esteem.

WANTS:

a. It is an unfulfilled desire. It is a strong feeling to have something.
b. Every person have unlimited wants, but limited resources. Thus, people cannot have everything they want and must look for the most affordable alternatives.
c. Want of something is a situation in which there is not enough of something; lack of something.
d. A want is a choice. A desire which a person may or may not be able to get. Life will continue if a person doesn't get what they want.

Difference between NEED and WANT

NEED	WANT
1. A need is something that is necessary for survival 2. A need is general 3. Every human being may have some of the same need. 4. Need is desire that is compulsory, means if a particular need is not met, it could lead to a person suffering from illness, or even death. 5. Example: A person need food to eat	1. A want is simply something that a person would like to have either at present or in future. 2. A want is individual. 3. Every human being will not have the same want. 4. Wants are desires that are optional, meaning that you will still be able to go on living, even if the want is not met. 5. Example: A person want sandwich to eat

INCOME:

It is the consumption and saving opportunity gained by an entity within a specified timeframe, which is generally expressed in monetary terms.
For households and individuals, " it is the sum total of all the wages, salaries, profits, interest, rents and other forms of earning received in a given period of time.

SOURCES OF INCOME:

There are different sources of income:
Income from salaries
Income from house property

Income from profits and gains of business
Income from capital gains
Income from other legal sources

BUSINESS:
It refers to a regular activity of sale of goods, which are either produced or purchased and rendering of services on a continuous basis with a motive of earning profit.

PROFESSIONAL INCOME:
It is the earned income and is classified as ordinary income for tax purpose.

INVESTMENT INCOME:
The income one derives from capital gains, dividends and other activities related to the purchase and sale of securities.

CAPITAL GAIN:
A capital gain is a profit that results from disposition of capital assets, such as stock, bond or real estate, where the amount realized on the sale exceeds the purchase price. The gain is the difference between higher selling price and a lower purchase price.

ACTIVE INCOME:
It is that income which is earned by providing services, e.g., wages, salaries, commission e**tc.**

PASSIVE INCOME:
It is an income which is received on regular basis with little effort required to maintain it, e.g. rent from property, pensions, dividend etc.

DISCRETIONARY EXPENSES:

a. Discretionary expense is a cost which is not essential for the operation of a business or a home.

b. It is the expense which is incurred by the consumer on things other than necessary things such as food, clothes and fuel etc.

c. These are the cost associated with business activities that are not directly related business operation .
d. These are non-essential or unnecessary costs that the business does not need in order to operate.
e.

NON- DISCRETIONARY EXPENSES:

a. These are those expenses which are very essential and necessary expenses for the business to operate.
b. These expenses are incurred to get basic requirement fulfilled, like expenses incurred for food , clothes etc.
c.

BUDGET:

a. An estimation of the revenue (income) and expenses over a specified future period of time.
b. A budget can be prepared for a person, family, group of people, business, government, country, multinational organization or just about anything else that make and spends money.
c. It is a financial plan for a definite period of time.
d. It may also include planned sales volume and revenues, resource quantities, costs and expenses, assets, liabilities and cash flows.

e. It is the sum of money allocated for a particular purpose and the summary of intended expenditures along with proposals for how to meet them.

Importance of Budget:

a. For companies a budget is an internal tool used by the management.
b. It is an invaluable tool to help you prioritize your spending and manage your money.
c. It provides a concrete, organize and easily understood plan of how much money you have coming in and how much money you are letting go.
d. It avoid losses and overspending of money.
e. It effectively allot funds to various areas of expenditure in advance.

Budget Surplus: It is a situation where projected income is greater than projected expenditure.
Budget Deficit: It is a situation where projected income is less than projected expenditure.

Types of Budget:

1. **Sales Budget**: It is an estimation of expected sales revenue and selling expenses of the firm. It is a forecasting of sales for the period both in quantity and value. It shows what product will be sold in what quantities, and at what prices.
2. **Master Budget**: It is an aggregate of a company's individual budgets designed to present a complete picture of its financial activity and health. The master budget combines factors like sales, operating expenses, assets and income streams to allow companies to establish goals.
3. **Operating Budget:** An operating budget is a forecast and analysis of projected income and expenses over the course of a specified time period. It is generally created on a weekly, monthly and yearly basis. It must account for factors such as sales, production, labor costs, material costs, manufacturing costs and administrative expenses.
4. **Cash Flow Budget:** A cash flow budget is a means of projecting how and when cash comes in and flows out of the business within a specified time period. It consider factors such as account payable and account receivable
5. **Financial Budget:** A financial budget presents a company's strategy for managing its assets, cash flow, income and expenses. It is used to establish a picture of a company's financial health.
6. Static Budget: A static budget is a fixed budget that remains unaltered regardless of changes in factors such as sales volume and revenue.

CASH FLOW SATEMENT: A summary of the actual or anticipated incoming and outgoing of cash in a firm over an accounting period.

Opportunity Costs: It is a benefit, profit or value of something that must be given up to acquire or achieve something else.