

Classes IX-X Financial Literacy

BUDGETING: BALANCING THE MEANS AND THE ENDS

Meaning- It is the process of preparing a detailed statement of financial results that are expected for a given period of time in the future.

The key words in the above statement are:

Expected- means something that is likely to happen.

Future- A period in the time to come.

Budgeting time periods- A budget is prepared for short, mid-range and longer term periods. A common set of time periods may be a month, a quarter or a year.

Types of Budgeting in a business firm- The three most important types of budgeting that a business firm should practice are:

1. Capital budgeting.
2. Operating budget.
3. Cash Flow budget.

Capital budgeting- It is the budgeting for the large expenses in the business firm. It is the process of budgeting for obtaining, expanding and replacing fixed assets. Fixed assets are those which are used in the business for a long period of time and increases the profit earning capacity of the business. For example - land and building, machinery, furniture etc.

Operating budget- It is a budget of sales revenue minus expenses.

Cash flow budget- It is a budget showing expected cash inflows (receipts) and cash outflows(expenses). The cash flow budget shows whether or not enough cash will be available to meet monthly expenses. If not, the cash flow budget shows how you can borrow if you don't have enough money to meet expenses and how you can invest if you have more money than you require in a given month.

Income: It is the sum of all the wages ,salaries ,profits interest payments ,rent and other forms of earnings received.

Now let's know how budgeting is related to you. For that let's answer a few frequently asked queries which will be useful to you:

What is a budget?

A blueprint of one's future projection (estimate) of income and expenditure.

What is the need for preparing a budget?

- To maximize savings.
- To avoid wasteful expenditure.

- To allocate funds to various areas of expenditure in advance.

What is budget surplus or deficit?

You might have heard these terms before when the government presents its annual budget.

Surplus= Estimated income > Estimated expenditure

Deficit= Estimated expenditure > Estimated income.

Now a few more things that will really help you to plan and prioritize your needs or wants

What is a need? Needs are necessities. Like a bicycle is a need .

What is a want? Wants make your life more comfortable. Like having a bike.

Let's take an example to understand this better:

The family of Mrs and Mr Sharma have the following family demands-

1. Elder son is demanding a bike for commuting to the college.
2. Younger son is demanding for a latest smart phone.
3. Mrs Sharma's birthday is approaching and her husband is thinking of gifting a diamond set.
4. The couple also wants to renovate their house.

In this example you will have to analyze the demands and prioritize them on the basis of importance and urgency

1. Like the elder son's demand is justified and it can be instantly satisfied .This is known as instant satisfaction i.e. buying something when you want it.
2. Younger son was convinced by telling him that he will be given a laptop in future and he agreed. This is known as Opportunity cost. Opportunity cost means to give up something to achieve something else in future.
3. Mrs Sharma's gift can be postponed.
4. The last wish can be ignored for the time being.

On the basis of prioritization only you will understand what are the needs and what are the wants. Needs are to be fulfilled instantly whereas wants can be postponed or ignored.

Delayed gratification, or deferred gratification, is the ability to resist the temptation for an immediate reward and wait for a later more enduring reward.

Examples: Saving now to spend later, choosing healthy to get energy later, or putting up with studies to help boost your career later

Instant gratification

Instant gratification is the desire to experience pleasure or fulfilment without delay or deferment. Basically, it's when you want it; and you want it now. Instant gratification is the opposite of what we have been taught and try too hard to practice — delayed gratification. Waiting is hard, and there is an innate desire to have what we want when we want it, which is usually without any delay.