



BUDGETING AND SPENDING PLAN

In financial planning, it is important to prepare a budget. True, living according to a budget requires a lot of discipline but it helps you to:

- live within your monthly income.
- keep aside money or savings.
- reach your financial goals.
- prepare for financial emergencies.
- develop good financial management habits, with regular check-ups of your cash flow and net worth.

When you prepare your personal budget:

- Refer to your financial goals. Compare your budget to your financial goals to see whether or not you are achieving them. For example, if you have targeted on putting a down payment to buy a car in one year, make sure you do monthly checks to ensure you are keeping money away towards your goal.
- Estimate your income for the budget period. This covers your salary, commissions, allowances and other sources of money.
- Put aside at least 10% of your income for your savings (20-30% of your income as savings will be better because you are creating a bigger pool of money for your future retirement).
- Put aside some money for your emergency

fund.

- Estimate fixed expenses for the budget period. These are expenses that must be paid or spent, and include house rental, loan installment payments, credit card payments and insurance premiums.
- Also estimate variable expenses for the period. These cover items such as petrol, groceries, electricity and water bills.
- Aside from that, estimate your discretionary expenses, i.e. for items that you can choose whether to spend or not spend. They include gifts, hobbies, entertainment, and holidays.

To prepare a successful budget, remember:

- Be patient and disciplined. A good budget takes time and effort to prepare. Do not give up because you feel there is too much to do!
- Be realistic. If you have a moderate income, do not expect to save a lot of money in a short period of time.
- Be flexible. There will be unexpected expenses and changes in the prices of groceries and other items. Revise your budget when needed.
- Set aside an amount of money to enjoy yourself. You are young and will want to have a night out with friends or to watch a movie.

Tracking your cash flow

Preparing your personal budget is not the end of the process. You need to monitor your actual spending every day, especially where your money is going. Another term used for this is managing cash flow—the actual inflow and outflow of cash during a given period of time.

Your most important inflow is probably your income from employment. You may, however, have other sources of income, such as a business income and interest earned on savings and investments. Outflows would be living expenses, loans, and other financial commitments.

If you have a cash surplus, that is fantastic! Put the money away in your savings. However, if you have a cash deficit, take another look at your spending. Try postponing any purchases or payments for the time being. Try not to use your emergency fund unless it is absolutely necessary. If you have to use your credit card, use it as your last resort as using your credit card will only add towards expenses for the coming months.

In preparing next month's budget, base it on the balance brought forward from the previous month.

Make sure you review and revise both your budget and spending plan regularly. If you need to decrease your spending, look at expenses you can do without or cut down. A good idea is to take a look at expenses involving food and entertainment. You may even have to revise your financial goals, if some of these are not realistic in relation to your monthly income.

LIVING WITHIN YOUR MEANS

Knowing your needs and wants

When you live within your means, you are spending money based on the money you have.

At the same time, you are putting aside money as savings to meet your financial goals.

It is so easy to overspend. Products are constantly marketed on TV and billboards as well as in magazines and newspapers. It ultimately depends on you to be strong-willed to resist all these forms of temptation. You can do so by understanding what influences your spending and what your needs and wants are.

What is a 'need'?

A need is something you must have, that you cannot do without. An example of a need is food. You need to eat to live. Otherwise, you will not survive for long.

Now what is a 'want'?

A want is something you would like to have, which is not absolutely necessary. Jewelry is a want because you do not really have to wear it for survival.

In today's world, for example, a mobile phone with basic features is a 'must have' for communicating with other people. However, one that has Bluetooth, a music player, camera and video, and GPS is a 'nice to have' mobile phone.

Spending wisely

When you want to buy something, ask yourself – Is it something that I need? Can I afford the money to buy it? Your personal budget and cash flow will help you answer this question. Check if you have previously allocated to spend on this item or have already overspent your cash for that month.

If it is a want, consider not buying it or spending less for something similar so that you can put more into your savings. When you do this, you are spending wisely and living within your means.

Making sensible purchasing choices and spending wisely will prevent you from creating financial difficulties for yourself and others. Handle your personal finances in a responsible manner, it is easy if you just learn to say 'no' to purchases you cannot afford.

Delaying gratification

Do you remember your childhood days when you wanted an ice-cream and your mother said that you could have it later, after you finish your homework? Do you remember asking your father if he could buy you a new bicycle and he said that you could have it later, if you did well in your exams? In both situations, your parents were teaching you to delay gratification.

Throughout your adult life, there will always be someone that will try to influence you into spending your money. If it is not your friend asking you to go out to dinner, it will be the sales promoter at the hypermarket asking you to buy their product.

Take the time to think whether it is necessary to spend the money and if it is something you can afford within your budget. Remember when you say 'no' to spending money now (by delaying gratification), you are one step closer towards achieving your financial dreams.

In life, there are always alternatives to choose from. Look into different substitutes for your needs and wants. Change your perceptions, if necessary. Instead of buying a car, using the public transport might be a good alternative to moving around the city. You will save money and furthermore contribute positively to the environment.

— Credit Counselling and Debt Management Agency