

**Topic: Home management,**

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### **Budgeting**

The common planning device for the use of money is the budget. It is a carefully prepared spending plan based on the actual family income. It is a plan based on previous experience, present needs and future expectations. A budget is always prepared for a fixed period of time generally for a month.

### **Importance of Budgeting**

1. Budget acts as an intelligent guide to spending.
2. It enables a family to have an overall view of their income.
3. Budgeting facilitates adjusting irregular income to regular expenditure.
4. Budgeting helps people to discuss their needs and set their own priorities on them.
5. It helps one to cut unnecessary expenditure.
6. It helps one to be free from debts.
7. It helps one to live within one's income.
8. It encourages conscious decision making which may help in including long term goals in the Budget.
9. It relieves the family members from worries of future.
10. It forces one to decide what one wants most out of life.
11. It provides for future saving.

Budget is a guide to realistic spending aimed at avoiding over expenditure. Its success depends upon its being simple, realistic, flexible and suited to the family or individual for whom it is made. Control of the plan in action is impossible without a written plan. A written plan can serve as an excellent record for future planning. A mental plan though it may serve the effort of noting down, may not help in controlling expenditure. Important needs maybe overlooked.

### **Steps in Preparing the Budget for a Family**

- a. List commodities and services needed by the family members throughout the budget period.
- b. Estimate the cost of desired items. Total each classification and estimate the total for the budget. Past records are helpful in this connection (Bills, cheques, receipts etc.).
- c. Estimate and total expected income from all sources for the budget period.
- d. Set aside a definite sum as emergency fund as well as for goal-oriented savings and insurance.
- e. Bring expected income and expenditure in balance.
- f. Check the plan if it is realistic.

### **The list of Budget Items**

It is necessary to list the chief budget items to make sure that each item is attended to in the expenditure plan while portioning the income. Each family may have their own way of listing the items.

### **The chief budget items are:**

#### **Food**

Food is the most important of all the items since it is a necessity. The quality and

quantity of food available for the family affects their health, efficiency and happiness. Hence the expenses on the actual purchases of groceries, meat, egg, milk, fruit and vegetables are included under this head.

### **Clothing**

Only items bought from a shop are to be included. These may be garments, shoes or other accessories needed by the family. Costs of fabric and tailoring charges may also figure in this group. However, it will not cover expenses likely to be incurred on laundry, dry-cleaning and repairs of the above items.

### **Housing**

This includes charges on a rented house, repair charges and maintenance charges paid by the tenant. This does not include sums paid towards the purchase of a house or plot, fixtures, electricity and water charges.

### **Education**

The educational expenditures depend upon the importance attached to education. All expenses incurred in connection with school or college education such as tuition fees, other fees, cost of note- books, text books, stationery.

### **Transport**

It includes the expenses incurred on the use of public or personal transport. This would include the cost of fuel, service and maintenance charges, repairs, road tax and insurance for privately owned cycles, two-wheeler and four-wheeler.

### **Personal Expenses (Sundries)**

The purchase of toiletries, laundry and dry-cleaning charges, cost of subscription to membership fees of clubs and associations, purchase of gifts, expenses incurred on cultural and recreational activities. Medical bills may also be budgeted under this head.

### **Household Expenses**

All the expenses for running the house- electricity, water, fuel, telephone bills, wages of part-time and full-time helpers are included here.

### **Savings**

Money has to be set aside for investments, insurance premium, for chit funds and other schemes.

### **Engle's Laws of Consumption**

A German statistician by name **Earnest Engle** found a statistical analysis of budget facts by research. The principles enunciated by him through his study of family budgets are known as Engle's Laws of Consumption. They are: "As income increases, the proportion of income spent on food decreases, though the actual amount of money spent on food increases". "The proportion of income spent on sundries, cultural wants, recreation, education, health etc. increases as income increases".

The proportion of income spent on shelter, clothing, lighting and fuel remains practically unchanged whatever the income may be. Three typical budgets of families belonging to low, middle- and high-income groups are given below. Using these model budgets each family can draw its own budget to suit its needs and financial condition, making changes in the budget items wherever necessary.

### **Family Budget**

For the sake of comparison, the income levels have been fixed at Rs.1000, Rs.4000 and Rs.8000 per men sum. The family consists of husband and wife with two school going children living in urban area. The budget should be kept for reference during the budget period for exercising control over expenditure in the succeeding month. This would help to live within the income to save for future and provide for emergencies without increasing unnecessary debts.

## Specimen budget for low, middle and high income groups

Expenditure	Rs. 1000 Actual amount spent Rs.	month %	Rs. 4000 Actual amount spent Rs.	month %	Rs. 8000 Actual amount spent Rs.	month %
Food	700	70%	1800	45%	2000	25%
Housing	50	5%	400	10%	800	10%
Clothing	50	5%	200	5%	400	5%
House keeping Expenses	100	10%	520	13%	1200	15%
Sundries	20	2%	200	5%	720	9%
Transport	20	2%	200	5%	560	7%
Medical	20	2%	320	8%	720	9%
Education	Free	--	120	3%	640	8%
Savings	40	4%	240	6%	960	12%