1.5 How to calculate surplus or deficit budget

Total expenses recorded are subtracted from the total income to determine a surplus or deficit budget for the specified period.

So, always total income greater than total expense that can result budget surplus

But, if total income less than total expense that can result budget deficit or shortage.

Total income – total expense = surplus or shortage or zero result

Example 1

Kebede

Personal budget

First, quarter 2007

Income from SeptemberOctoberNovember

-Salary ..... 5000 ..... 5000 5000

- Allowance..... 2500 ..... 2000 1500

- Bonuses ..... 10000 ..... 0 1000

- Rent ..... 500..... 500 500

Expense from SeptemberOctober November

Clothing ..... 3000 ..... 2000 5000

Food at home ..... 5000 ..... 4500 4800

Health care ..... 900 ..... 800 400

Insurance ..... 600 ..... 600 600

Food away from home ..... 500 ..... 700 700

Other expense ..... 1000 ..... 1000 1000

Task 1, determine kebede personal budget either surplus or deficit budget for each month by budget table format

Task 2,In which month, kebede set a higher expense?

Lo2: Develop A Personal Budget

Develop a Personal Budget

Whether you've got your sights set on buying your first home, investing in a new car or maybe taking an extended getaway, developing a budget for yourself is the first step toward achieving your personal financial goals. Sticking to a budget may not come naturally, but with discipline and gradually changing your habits you will be able to finally start seeing a significant increase in your savings account. If you're not ready to sacrifice those lattes during your morning commute, you can still include them in your budget – it just may take a little longer to reach your goals.

Sponsored Link

Download Budget Templates

Free spreadsheets budget and track income and expenses on each page.

www.pagemonth.com

Preparation

Step 1

Plan to spend anywhere from two weeks to a month learning where and how you are spending your money. If you follow a steady routine, two weeks should be enough time, but if your days are more chaotic, take a month.

Step 2

Record all of your daily expenses – even those afternoon trips to the office vending machine. It may seem tedious, but the mere act of writing down every time you part with your hard-earned money may be enough to reduce excess spending.

Step 3

Itemize your expenses and add up a monthly total for each one. For example, the total of all your gas receipts will be a good average for what you spend a month on fueling your car. You may be surprised by some totals. These are your monthly expenses after bills and rent or mortgage.

Step 4

Consider which expenses you can eliminate or reduce. Perhaps you can get that pedicure every two weeks instead of every Friday, or maybe you can cut back on caramel macchiatos to just two or three days a week, rather than every morning.

2.1. Introduction and principles of personal budgeting

Budgeting Principles

For those who have the task to develop budgets or to be involved in the process of developing budgets, it is important to have a good knowledge of budgeting principles that can make the difference in the financial health of the organisation. Failure to engage in sound budgeting processes would rank as one of the main reasons why companies and organisations fail.

1 Be conservative not optimistic

The first principle of budgeting is to avoid budgeting on the basis that everything will turn out as expected. Be very cautious about optimistic forecasts. Try to build in a safety factor by tending to **underestimate your income** and **overestimate your expenses**. There will always be unexpected events and therefore a common strategy in developing a budget is to insert an additional expense called "contingencies". This item in the expense budget is an insurance policy against the unforeseen.



2 Team work and consultation

One of the most important principles of budgeting is that it requires teamwork and consultation. Although one person may be responsible for the overall compilation of the budget, one person should not be responsible for all the work involved. The task of budgeting should be split and allocated among those individuals who have the best chance of knowing what expenditure is likely to be needed and what income is reasonable to expect. Involvement by many people in budgeting might slow the process down, but the answer is far more likely to be accurate and dependable.

5 Provide Training

Ensure people who have a significant role in the budgeting process have a reasonable understanding of the principles of budgeting, how it relates to the strategic and operational plans, and how everyone must live with the consequences of the finalised budget in the year ahead. Training need only be a single meeting in which those who have experience of budgeting provide knowledge to others involved who are less experienced.

6 Get Sign Off

Another one of the important principles of budgeting is to ensure that all persons formally involved in the budgeting process agree to the final iteration of the budget. This agreement by those involved is often referred to as the "Sign Off". In other words, those involved add their signature to the final iteration of the budget. This ensures that there will be no argument later about who agreed to what.

7 Another one of the important principles of budgeting is to ensure that all persons formally involved in the budgeting process agree to the final iteration of the budget. This agreement by those involved is often referred to as the "Sign Off". In other words, those involved add their signature to the final iteration of the budget. This ensures that there will be no argument later about who agreed to what.

Calculate interest and loan repayments

What is interest?

When you take out a loan, whether it's a car loan, home loan or credit card, you'll have pay back both the amount you borrowed and interest on top of it. But what do we mean by that?

Well, essentially, interest is a fee you pay for using someone else's

(usually the bank's) money. It's how lenders make profit from giving out loans - after all, they're not in it out of the goodness of their hearts.

Usually the repayments you make on a loan will be made up of two parts: the part that reduces your balance to pay off your loan, and the part that covers the interest on the loan.

➢ *Factors that affect how much interest you pay*

You'll need to know a few basic facts about your loan before calculating how much interest you'll pay. All of these things should be freely available to you before you take on the loan - all anyway, even if you're not trying to calculate interest.

➢ Principal amount

This is the amount you're looking to borrow. But it's not as simple as deciding how much you want - you should really be focusing on how much you can realistically afford to pay back. To work it out, consider your budget on all levels - yearly, monthly and weekly - and think about any life changes you might encounter (are you about to have kids? Make a big move?). Mozo also has some great, free resources to help you straighten out just how much you can borrow, like our:

- Budget calculator
- Savings calculator
- Borrowing calculator

➢ Loan term

How long will you be repaying your loan? Shorter loan terms will generally mean higher repayments, but less interest in the long run, while longer terms will lower monthly repayments, but cost more in interest over the entire life of the loan.
For example, our personal loan repayment calculator shows that on a loan of $20,000 at 8.75% p.a. you would pay:

$634 each month, adding up to $2,812 in interest over 3 years, or

$413 each month, adding up to $4,765 in interest over 5 years.

➢ Repayment schedule

On many loans, you'll have the option to make repayments weekly, fortnightly or monthly. Which one you choose will depend on your

budgeting style. More repayments means less interest, because of the effects of compounding, so weekly repayments will save you some money. But before you commit to a weekly repayment schedule, make sure that your budget can meet it!

➢ Repayment amount

When you make your repayment, not all of it goes to paying off your loan, as such. A certain amount will go towards paying the interest first and then what's left chips away at your loan principal. Because the amount of interest you pay depends on what your principal is, to calculate ongoing interest costs, you'll need to know what amount you're making in repayments.

➢ Interest rate

When calculating interest on your loan, remember to use the basic annual interest rate and not the comparison rate to get accurate numbers. The comparison rate takes into account fees and charges as well as interest, so if you use it, you will get a higher amount of interest than you should.

➢ *Calculating interest on a car, personal or home loan*

These loans are called amortizing loans - which means that the mathematical whizzes at your bank have worked them out so that you pay a set amount each month and at the end of your loan term, you'll have paid off both interest and principal.

You can use an interest calculator to work out how much interest you're paying all up, or, if you'd rather do it by hand, here's how:

1. Divide your interest rate by the number of payments you'll make in the year (interest rates are expressed annually). So, for example, if you're making monthly payments, divide by 12.
2. Multiply it by the balance of your loan, which for the first payment, will be your whole principal amount.

This gives you the amount of interest you pay the first month.

So for example, on a personal loan of $30,000 over a period of 6 years

at 8.40% p.a. and making monthly repayments:

Because you've now begun to pay off your principal, to work out the interest you pay in the following months, you need to first calculate your new balance. So:

1. Minus the interest you just calculated from the amount you repaid. This gives you the amount that you have paid off the loan principal.

2. Take this amount away from the original principal to find the new balance of your loan.

Example 1.Assume that mr.gemechu has the following budgeted and actual income and expense and saving as follows

Task	September 1 budget	September 30 actual	October 1 budget
Income	1600 birr	1600 birr	1600 birr
Rent expense	500	500	500
Utility expense	300	350	300
Educational payment	200	250	200
Gift & contribution	100	90	100
Saving	200	200	200
House operation	300	280	300

Activity 1:- prepare budget performance for September month

Activity 2:- prepare budget allocation for October month

Example 2 Assume MRX has the following budget income expense for the month of October1

Task budget for October 1

Income 1200

Rent expense 400

Utility expense 200

Saving 200

House operation 200

Loan payment 200

Actual income and expense for October 30

Activity October actual

Income 1200

Rent expense 400

Utility expense 200

Saving 200

House operation 200

Loan payment 200

November 1 budget

Task October actual

Income …… 1200

Rent expense …….. 400

Utility expense …….. 200

Saving …… 200

House operation …….. 200

Loan payment …….. 200

Activity one: - prepare budget performance for October?

Activity two: - prepare budget allocation for November

Example 2 Assume MRX has the following budget income expense for the month of October1

Task budget for October 1

Income …… 1200

Rent expense …….. 400

Utility expense …….. 200

Saving …… 200

House operation …….. 200

Loan payment …….. 200

Actual income and expense for October 30

Activity October actual

Income 1200

Rent expense 400

Utility expense 200

Saving 200

House operation 200

Loan payment 200

November 1 budget

Task October actual

Income 1200

Rent expense 400

Utility expense 200

Saving 200

House operation 200

Loan payment 200

Activity one: - prepare budget performance for October?

Activity two: - prepare budget allocation for November

The family of abebe has tow children the total income of the family for the month of April is birr 3,800.

N.o	**Description**	**Budget allocation for month April**	**Budget actual expenditure for month April**
1	**Food**	**1,220**	**1,250**
2	**House rent**	**835**	**845**
3	**Cloth's**	**725**	**735**
4	**Utility**	**520**	**535**
5	**Medical**	**395**	**445**

Task:-1 how much saving per month

Task:- 2 prepare variance of April

Task:- 3 prepare budget performance report for April

Example 3:- Assume that Mr. has monthly income for September 1 400 and the following expense listed:-

Task	Sep 1 budget	September 30 actual	October budget
Rent expense	400 birr	400 birr	400 birr
Utility expense	300	250	300
Educational expense	300	300	300
Saving	200	200	200
Loan payment	200	200	200

Activity three (answer)

Calculate the percentage saving

% saving = saving value x100%

May income

%saving for = 200/1400 x 100% = 14.28 %

% saving for = 200/1400 x 100%= 14.28 %

Monthly income

% saving = 70 x 100% = 3.589%

1950

Example 5 Ato Abel has a monthly income 3000 birr and he set expense beyond a monthly income

Required

1. Prepare budget for October 1
2. Prepare budget variance

How much money save from total income