

**SELF-TEST QUESTIONS**

1. Explain what a budget is

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2. Prepare a budget

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3. Interpret budget –Income, Expenditure, Fixed, Irregular and Discretionary

4. Calculate Net Cash, Opening cash and closing cash

**KEY WORDS**

**Budget -** A Budget is a financial plan that set out expected future

income and expenditure

**Balance Budget -** This is when income equals expenditure (Income

= Expenditure)

**Budget Surplus** - This is when income is greater the expenditure (Income > Expenditure)

**Budget Deficit** - This is when expenditure is greater that income (Income < Expenditure)

**WHY PREPARE BUDGETS**

1. It helps people live within their means. That income met the expenses that they have and they are not over spending
2. It helps people to think about their spending.
3. It will identify months when there is a lot of spending so they can put measure in place to try and spread these payments over a few months instead on one
4. Helps people save for items of big expenditure like a holiday or a new car

**SUCCESS CRITERIA**

Step 1 Input relevant income figure into the budget and add up the figure to get the total for each month (A)

Step 2 Input relevant figure for fixed (regular) expenditure into the budget and add up the figure to get the total amount for fixed (regular) expenditure for each month

Step 3 Input relevant figure for irregular expenditure into the budget and add up the figure to get the total amount for irregular expenditure for each month

Step 3 Input relevant figure for discretionary expenditure into the budget and add up the figure to get the total amount for discretionary expenditure for each month

Step 4 Add up the totals for regular, irregular and discretionary expenditure (B)

Step 5 To calculate net cash take the figure from step 4 away from the figure in step 41

Step 6 Enter the opening balance as per the question (if none is given leave it blank)

Step 7 The closing balance is calculated by adding the opening balance to the net balance. This will give the closing balance

Step 8 The closing balance for one month become the opening balance for the next month and repeat step 7

Step 9 the balance for the Total Column must be the same as the balance for the last month in the budget

***DEALING WITH A DEFICIT***

This can be resolved by

1. Increase your income – for example taking on an additional job or overtime
2. Reduce Expenditure – This can be done by reducing discretionary expenditure and if that doesn’t work to make cuts to fixed and irregular spending (Shop around for cheaper items)
3. Get Credit – you can take out a loan to make up the short fall ( a bank overdraft may help)

|  |  |  |  |
| --- | --- | --- | --- |
|  | May | June | July |
| Income | 1500 | 2000 | 2500 |
| Expenditure | 1600 | 1700 | 1500 |
| Net Cash | (100) | 300 | 500 |
| Opening Cash | 1000 | 900 | 1200 |
| Closing Cash | 900 | 1200 | 1700 |

**COMPARING THE PLAN WITH ACTUAL FIGURES**

The budget is a financial plan and the analysed cash book provides a record of actual cash receipts and payments. These two need to be compared which will give meaningful and helpful information. This comparison can be done by writing up a budget comparison statement which shows in income and expenditure by category