BUDGETING

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WHAT IS A BUDGET

* *“A budget” also known as financial planning*
	+ *is a plan that lays out what you will do with your money.”*
	+ A budget is a summary of estimated income and how it will be spent over a defined period
	+ is a fairly simple tool that anyone, rich or poor, can use to manage money. serves as a master plan for the future.
	+ a road map that can help entrepreneurs to realize their dreams.
* Making a budget will help you allocate your resources to meet multiple goals.

COMPONENTS OF A BUDGET

* Sources and amount of income
* Total planned income
* Types of expenditure, including enterprise and household expenses
* Amount of expenditure
* Total planned expenditures
* Total savings

WAYS TO IMPROVE A BUDGET

* List all income sources
* List all expenses
* Plan ahead to prevent spending more than your income
* Save surpluses to meet future expenses when income is low

DEBT MANAGEMENT

* A debt is an amount of money, goods or services borrowed from one party to another
* Debt can also be defined as money borrowed from someone else for temporary use and repayable after a defined period of time to the owner

WHY PEOPLE BORROW

* To invest & Expand Business
* To respond to an unexpected emergency e.g. sickness
* To consume
* To purchase(assets) an item for which they do not have enough money

BENEFITS OF BORROWING

* Access to lump sum amount sufficient to meet financial obligation
* Quick access to money to meet financial needs
* Promote growth and development of enterprises
* Promote financial discipline to the borrower
* Encourage borrowers to work smart and improve income
* Provide opportunities for example borrowing to buy land or other assets
* Facilitate borrowers to meet social obligation such as dowry and weddings
* Access to loan facilities help individual improve their livelihood, social status and earn social recognition in the society

FACTORS TO CONSIDER BEFORE BORROWING

* Cost of borrowing-That is interest rates and other related costs e.g. loan application and processing fee, insurance, valuation fee etc.
* Ability to pay the loan- your cash flow-The sources of income and/or savings you have to make those payments
* Purpose of the loan-( why are you borrowing
* Availability of collateral to secure the loan where required
* Emerging opportunities both enterprise and personal e.g. To buy assets on auction like land, furniture etc

WHEN YOU SHOULD NOT BORROW

* When you have no clear purpose why you are borrowing
* When you have not planned to borrow
* When the cost of borrowing is too high than the benefits you are going to gain from the use of money.
* If the loan will strain your financial flow (cash flow)
* When not sure of your cash flow (ability to pay)

CHALLENGES OF BORROWING

* Loan put you in a commitment which you must honor and if you fail legal action can be taken against you and even loss of property.
* A loan has costs tied to it; interest rates, processing fees, penalties and fines all these are born by the borrower.
* Uncertainty: situations beyond you may happen e.g. sickness death which may interfere with your ability to pay.

SIGNS OF DEBT GETTING OUT OF CONTROL



* Using credit to purchase things you once bought with cash
* Getting loans or extensions to pay your debts
* Using savings to repay loans
* Using credit for living expenses

DEBT MANAGEMENT

* Debt Management is a unique strategy developed to help a debtor manage their debt
* Debt Management also be defined as any strategy that helps a debtor to repay or otherwise handle their debt better
* Reactive Borrowing**—do not have a plan for when cash will be needed;** donot know exactly when there will be a shortfall.

 *Example: I am desperate to get any loan today at any cost because I have* to pay my rent, otherwise we will get kicked out of our house.

* Borrowing without knowledge of the cost of borrowing from different sources**—do not research credit options; take out a loan without asking** questions about the loan because of a lack of understanding about loan terms.

 *Example: I was afraid to ask details about the loan because I just do not* understand loan terms; it is intimidating. Afterwards, I found out that the interest rate is much higher than in other places.

* Over-commitment to debt**—too many loans; excessive loan-to-income** ratio; cannot sustain loan payments; get new loans from different sources to pay off the old loans.

 *Example: I had to get a loan from the local pawnshop in order to pay back* my group loan.

* Borrowing to meet recurrent and life-cycle needs**—lack of budgeting; no** plan for cutting back on expenses to fit current income.

 *Example: I just realized I do not have enough money this month. I will* need to borrow some money to pay for my utilities