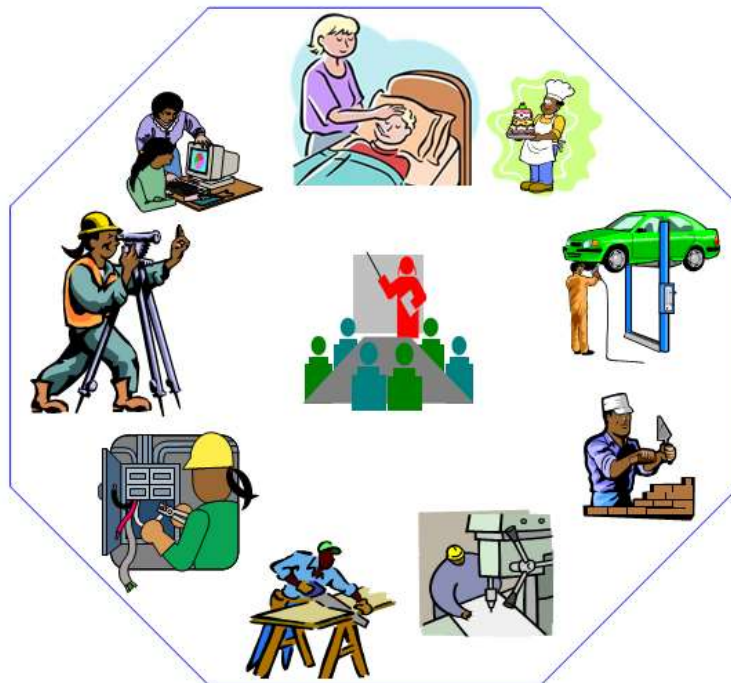


# COOPERATIVE ACCOUNTING AND AUDITING

## Level-I

**Based on January 2022, Version Occupational  
standard**



**Module Title: - Developing and Using a Personal  
budget**

**LG Code: AGR CAA1 M05 LO (1-3) LG (18-20)**

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## Table of Contents

<b>Introduction to the Module .....</b>	<b>1</b>
<b>LO #1- Analyze and discuss budgeting as a financial tool.....</b>	<b>2</b>
Instruction sheet .....	2
Information Sheet 1 .....	3
Self-check 1 .....	9
<b>LO #2- Develop a personal budget .....</b>	<b>11</b>
Instruction sheet .....	11
Information Sheet 2 .....	13
Self-Check – 2 .....	22
Operation Sheet -1 .....	24
LAP TEST-1 .....	31
<b>LO #3- Implement and monitor the personal budget .....</b>	<b>32</b>
Instruction sheet .....	32
Information Sheet 3 .....	33
Self-Check – 3 .....	37
Reference Materials.....	39

## Introduction to the Module

Dear learner this module describes the performance outcomes, skills, knowledge and attitude required to develop, implement and monitor a personal savings budget. The module comprised of three learning outcome namely; Analyze and discuss budgeting as a financial tool, Develop personal budget and Implement and monitor the personal budget. Within each learning outcome there are different content and topics that help you to understand the module and to achieve the learning outcome of module.

Therefore, the objective of develop and use personal budget module is to provide you with useful information and tools to create and maintain a budget. By the end of this module, you will have developed your own budget. You will bring this budget to your in-person counselling session. During your in-person counselling you and your counsellor will work together to make sure your budget will help you be successful in the future. This module will provide you with tips to make budgeting a regular part of your routine.

Dear student you are required to:

- ❖ Attentively follow the instruction sheet
- ❖ Read and understand the information sheet
- ❖ Perform each self-check of learning guide
- ❖ Perform the activities of operation sheet
- ❖ Perform the LAP Test

## LG #18

## LO #1-Analyze and discuss budgeting as a financial tool

### Instruction sheet

This learning guide is developed to provide you the necessary information regarding the following content coverage and topics:

- Concept of budget and budgeting
- The role of budgeting in the lives of different groups
- Analysing importance of budgeting in different stages of life
- Importance of setting financial goals
- Behaviours and skills required for successful personal budgeting
- Obstacles in achieving personal financial goals

This guide will also assist you to attain the learning outcomes stated in the cover page. Specifically, upon completion of this learning guide, you will be able to:

- Analyze and discuss the role of budgeting in the lives of different groups and the importance of budgeting appropriately to meet expenses and related to different stages of life
- Analyze and discuss the importance of setting financial goals
- Analyze and discuss obstacles that might prevent financial goals being achieved with the types of behaviors and explore & analyze skills required for successful budgeting

### Learning Instructions:

1. Read the specific objectives of this Learning Guide.
2. Follow the instructions described below.
3. Read the information written in the information Sheets
4. Accomplish the Self-checks

## Information Sheet 1

### 1.1. Concept of budget and budgeting

#### 1.1.1. Definition of Budget

**A BUDGET IS DEFINED** as the formal expression of plans, goals, and objectives of management that covers all aspects of operations for a designated time period. The budget is a tool providing targets and direction. Budgets provide control over the immediate environment, help to master the financial aspects of the job and department, and solve problems before they occur. A budget is a financial plan to control future operations and results. It is expressed in numbers, such as dollars, units, pounds, and hours. Budget refers to a calculation of all projected income and expenditure for period of time (e.g. on a weekly or monthly basis). Budget refers to showing all projections versus actual income and expenses for the period and monitoring variances.

**According to Certified Institute of Management Accountants (CIMA) a budget** is a “quantitative expression of a plan for defined period of time. It may include planned sales volumes and revenues, resources quantities, costs and expenses, assets, liabilities and cash flow”. Therefore, to call a plan – budget, it must comprise the quantities of economic resources to be allocated and used, it must be made for certain period of time, it has to be expressed in monetary terms, the managers needs to act in a way that shows intention to realize the plan.

#### 1.1.2. Definition of Budgeting

**Budgeting** is a process of expressing quantified resource requirements (amount of capital, amount of material, number of people) into time-phased goals and milestones. It is needed to operate effectively and efficiently. Budgeting, when used effectively, is a technique resulting in systematic, productive management. Budgeting facilitates control and communication and also provides motivation to employees.

Budgeting allocates funds to achieve desired outcomes. A budget may span any period of time. It may be short-term (one year or less, which is usually the case), intermediate (two to three years), or long-term (three years or more). The budget period varies according to its objectives, use, and the dependability of the data used to prepare it. The budget period is contingent on business risk,

sales and operating stability, production methods, and length of the processing cycle. Five important areas in budgeting are planning, coordinating, directing, analyzing, and controlling. The longer the budgeting period, the less reliable the estimates

### 1.1.3. Requirement of effective budgeting

**Effective budgeting requires the existence of:**

- Predictive ability
- Clear channels of communication, authority, and responsibility
- Accounting-generated accurate, reliable, and timely information
- Compatibility and understandability of information.
- Budgets should be understandable and attainable.
- Flexibility and innovation are needed to allow for unexpected contingencies.

### 1.1.4. Definition of personal Budget

**A personal budget** is a finance plan that allocates future personal income towards expenses, savings and debt repayment. Past spending and personal debt are considered when creating a personal budget. There are several methods and tools available for creating, using and adjusting a personal budget.

**A personal budget** (for the budget of one person) or household budget (for the budget of one or more person living in the same dwelling) is a plan for the coordination of the resources (income) and expenses of an individual or a household.

## 1.2. The role of budgeting in the lives of different groups

### 1.2.1. The different groups who may budget includes:-

- Families
- Governments
- Individuals:-Single, Married, Elderly, Students, Tourists, travellers

### 1.2.2. The role of budgeting:-

- It is a simple way to make financial information accessible to all people in the organization who need to use it.
- It helps you to understand exactly what your work will cost and what limitations you have so that your plans can be made more realistic.
- It clarifies where you have gaps and need to do more fund-raising.
- All financial statements should be written in terms of the budget so that it is easier to be transparent and accountable and to ensure that no money is spent on costs that you have not budgeted for.
- It makes reporting to members or funders much easier since the expenditure can be compared to the amounts that you actually budgeted.
- A good budget can also help to avoid waste.
- Budgets also help managers coordinate objectives.

### 1.3. Analysing importance of budgeting in different stages of life

#### 1.3.1. Different stages of life include:-

Stage1 Studying

Stage2 Starting a family

Stage3 Moving out of home

Stage4 Buying your first home

Stage5 Approaching and during retirement

#### 1.3.2. The Importance of a Personal Budget

- Gives you control over your money
- Keeps you focused on your money goals.
- Makes you aware what is going on with your money
- Helps you organize your spending and savings
- Makes you decide in advance how your money will work for you.
- Enables you to save for expected and unexpected costs
- Enables you to communicate with your significant others about money

- Provides you with an early warning for potential problems
- Helps you determine if you can take debt and how much
- Enables you to produce extra money

## 1.4. Importance of setting financial goals

### 1.4.1. Definition of Financial Goal

A **financial goal** is a target to aim for when managing your money. It can involve saving, spending, earning or even investing.

Creating a list of financial goals is vital to creating a budget. When you have a clear picture of what you're aiming for, working towards your target is easy. That means that your goals should be measurable, specific and time oriented

#### Financial goals include:

- accumulating a set amount of money by a specified date in the future for the purposes of:
  - ✓ purchasing assets
  - ✓ financing holidays, educational expenses, home renovations and other known future expenses
  - ✓ establishing a deposit for an investment such as a home or investment property
- aiming to repay existing debts and be debt free
- establishing a regular savings plan
- handling income and expenditure responsibly and avoiding financial difficulties

### 1.4.2. Types of Financial Goals

There are several types of financial goals:

- Short-term goals
- Mid-term goals
- Long-term goals

**A. Short term financial goals:** -These are smaller financial targets that can be reached within a year. This includes things like a new television, computer, or family vacation.

**B. Mid-term financial goals:-**Typically, midterm goals take about five years to achieve. A little more expensive than an everyday goal, they are still achievable with discipline and hard work. Paying off a credit card balance, a loan or saving for a down payment on a car are all mid-term goals.

**C. Long-term financial goals:-**This type of goal usually takes much more than 5 years to achieve. Some examples of long term goals are saving for a college education or a new home.

### 1.4.3. Seven Reasons Why it is Important to Set Financial Goals

Setting financial goals is essential to financial success. Once you've set these goals you can then write and follow a roadmap to realise them. It helps you stay focused and confident that you're on the right path.

Reason #1: You Need to Know Where You're Going

Reason #2: Setting Financial Goals Dictates How Much You Need To Save

Reason #3: Different Financial Goals Require Different Strategies

Reason #4: It Helps Shape Your Career Choices

Reason #5: Setting Financial Goals Helps You Stay Focused

Reason #6: You Can Find the Right Tools to Help.

Reason #7: Setting Financial Goals Creates a Sense of Achievement

## 1.5. Behaviours and skills required for successful personal budgeting

### 1.5.1. Behaviours and skills required for successful budgeting includes:-

- ❖ Controlled spending
- ❖ Disciplined approach to money
- ❖ Organisational skills
- ❖ Record keeping skills

### 1.5.2. Eleven Budgeting Skills That Everyone Should Master

The key to making your budget into a friend and not aopponent is having the right set of skills to make it happen. Here are a few of those.

- See Money as a Tool
- Record Your Transactions
- Assess Your Spending
- Make a Budget
- Write It Out
- Plan Ahead
- Include Spending Money
- Make a System That Works for You
- Live With Discipline
- Know When to Splurge
- Ask Yourself Hard Questions

### 1.6. Obstacles in achieving personal financial goal

**Six key obstacles that can prevent you from reaching your financial goals and how you can overcome them**

- Not Having Clear Financial Goals
- Inability to Control Spending
- Trying to Pursuit High Returns
- Borrowing in Excess
- Inadequately Planning for Emergencies
- Inflation: The Invisible Obstacle

Self-check 1	Written test
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Name..... ID..... Date.....

**Directions:** Answer all the questions listed below.

**Test I: Choose the best answer (5point)**

- 1) Which one of the following is false about budget?
  - A. The budget is a tool providing targets and direction.
  - B. A budget is a financial plan to control future operations and results.
  - C. It is not expressed in numbers, such as dollars, units, pounds, and hours.
  - D. Budgeting facilitates control and communication and also provides motivation to employees.
  - E. Budget refers to a calculation of all projected income and expenditure for period of time.
- 2) Which one is wrongly matched?
  - A. Short term financial goals: - These are smaller financial targets that can be reached within a year.
  - B. Mid-term financial goals: -These are goals take about five years to achieve.
  - C. Long-term financial goals: -This type of goal usually takes much more than 5 years to achieve.
  - D. None of the above.
- 3) Which one of the following is the importance of a Personal Budget?
  - A. Gives you control over your money
  - B. Keeps you focused on your money goals
  - C. Makes you aware what is going on with your money
  - D. Helps you organize your spending and savings
  - E. All of the above
- 4) Choose the key obstacles that can prevent you from reaching your financial goals
  - A. Having Clear Financial Goals
  - B. Inability to Control Spending

- C. Inflation
- D. Inadequately Planning for Emergencies
- E. All of the above except A

**Test II: Short Answer Questions (16 point)**

1) What is the role of budgeting?

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2) What is the Importance of a Personal Budget?

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3) Write Seven Reasons Why it is Important to Set Financial Goals

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4) Discuss eleven Budgeting Skills that everyone should Master briefly.

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5) Discuss the Six key obstacles that can prevent you from reaching your financial goals briefly.

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**Note: Satisfactory rating - 10 points and above, but Unsatisfactory if you score - below 10 points. You can ask your teacher for the copy of the correct answers.**

## LG #19

## LO #2- Develop a personal budget

### Instruction sheet

This learning guide is developed to provide you the necessary information regarding the following content coverage and topics:

- Recording income and expenses
- Steps to create a personal budget
- Developing spreadsheet to record income and expenditure
- Identifying sources of income, regular fixed expenses, and variable expenses
- Determine a surplus or deficit budget
- Explore reason for budget deficit
- Investigate ways to reduce expenses or increase income

This guide will also assist you to attain the learning outcomes stated in the cover page. Specifically, upon completion of this learning guide, you will be able to:

- record all income and expenses for a six month period to assist in estimating expenditure requirements
- obtain or develop a spreadsheet for recording all budget information and establish to record income and expenditure for a relevant period of time
- identify and list all sources of income and regular fixed expenses and variable expenses for the specified period in a personal budget using the budget spreadsheet
- subtract total expenses recorded from the total income to determine a surplus or deficit budget for the specified period
- explore reasons for a deficit budget if relevant and investigate ways to reduce expenses or increase income
- explore allocation of surplus funds towards saving and meeting identified financial goals

### Learning Instructions:

1. Read the specific objectives of this Learning Guide.
2. Follow the instructions described below.
3. Read the information written in the information Sheets
4. Accomplish the Self-checks
5. Perform Operation Sheets

## Information Sheet 2

### 2.1. Recording income and expenses

Recording your income and expenses as you receive and pay them, will help you to control your spending and make sure that you are living within your means by only spending what you have planned and budgeted.

#### 2.1.1. Definition of income and Expenses

**Income:** - the money that a person earns from work, from investing money, from business etc. it is an annual, monthly, quarterly and weekly income

**Expenses** are costs for items or resources that are used up or consumed in the course of daily living. Expenses recur (i.e., they happen over and over again) because food, housing, clothing, energy, and so on are used up on a daily basis. Expense includes fixed and variable expense

#### Fixed Expenses

Fixed expenses cost the same amount each month. These bills cannot easily be changed and are usually paid on a regular basis, such as weekly, monthly, quarterly or from year to year. It's much easier to budget for fixed expenses than a variable expense or discretionary expense. Fixed expenses cost the same amount each month.

**Variable expenses** represent those daily spending decisions like eating at a restaurant, buying clothes etc. These costs are not considered variable because they're discretionary. Rather, they're "variable" because the amount that you spend differs from month-to-month. While most variable costs represent discretionary spending (such as restaurants, Starbucks, and golf), some variable costs represent necessities.

#### 2.1.2. The difference between fixed and variable expenses

**Variable costs** vary with the amount produced. **Fixed costs** remain the same, no matter how much output a company produces. A **variable cost** is a person's cost that is associated with the

amount of goods or services it produces. On the other hand, a **fixed cost** does not vary with the volume of production.

### 2.1.3. How to record Income and Expenses?

- In your daily transactions income or expenses are collected together and recorded in separate accounts according to set rules.
- These accounts are totaled at the end of a time period to measure your spending and earning.
- Expenses are always recorded as debit entries in expense accounts and income items are always recorded as credit entries in income accounts.
- You can record the information on a spreadsheet.

It is important to start recording income from the first day of trading. The longer you leave it before you start, the harder it is to catch up and get it accurate. So, start recording your income on day one no matter how small your business transaction is.

## 2.2. Steps to create a personal budget

Personal cash flow budget can be created by following the steps below:

### Step1. Determine your current financial position – bank account & loans

Check how much money you have in your bank accounts and other investments and then determine how much money you owe (e.g. on credit cards or loans).

### Step2. Determine your anticipated income over the next twelve months

For people working for wages or on a salary, it is as easy as checking pay slips to determine net income. However, it's a little more complicated for contractors and people who are self-employed.

When determining your current incomes remember to include other sources of income such as interest on savings or government payments. When you know how much you make per annum,

and when you make it, allocate it to your budget in the months that it will actually come into your bank account.

### **Step3. Determine your anticipated expenditure over the next twelve months**

Write down all of your current expenses and be sure to make an honest and realistic appraisal of your spending. You can track your expenditure for a month or more for an accurate assessment of how much you spend. It is useful to categorize your spending, such as fixed expenses and variable expenses.

**Regardless, your expense targets should be analysed using the SMART strategy:**

- **Specific** – how much are you spending on a particular expense?
- **Measurable** – how much do you realistically need to spend?
- **Attainable** – is the expense affordable for you?
- **Realistic** – can you afford this expense without forgoing essential items?
- **Timely** – is it the right time to spend this money? Should other expenses be paid first?

### **Step4. Do calculations to determine if you will have enough to cover expenditure in each month**

This step involves subtracting your expenses from your income. It is your choice whether you work this out based on weekly, fortnightly or monthly income/expenses. Monthly is the common choice.

### **Step5. Monitor your progress**

Review your personal cash flow budget once a month to ensure that you are on track with your income and expenses. Determine if you are over or under budget. Do you need to alter your budget to be more realistic? Can you put more money into savings than you originally planned? Revisit the SMART list to check that your budget is working for you. Regular review of your budget will ensure that the personal budget you have prepared remains realistic and relevant for your needs.

## 2.3. Developing spreadsheet to record income and expenditure

### 2.3.1. Definition of spreadsheet

**Spreadsheet is computer** program that represents information in a two-dimensional grid of data, along with formulas that relate the data. Historically, a **spreadsheet** is an accounting ledger page that show various quantitative information useful for managing a business.

Electronic spreadsheets replaced pen-and-ink versions in the late 20th century. Spreadsheets are not limited to financial data, however, and are frequently used to represent scientific data and to carry out computations.

#### A spreadsheet:

- Can be simple or complex depending upon the extent of the individual's finances
- Have one section for recording all money received as income and another section for expenses both variable and fixed
- Have a section to record the difference between income and expenses for the period, this being the surplus or deficit financial situation for the period

### 2.3.2. How to create Income and expense spreadsheet in excel.

- Assemble all your financial data
- Open your income and expenses excel worksheet
- Select an empty cell beneath the last items in your “ income “ column
- Type “total Income” in this cell, then press the ‘Enter “ key
- Select the sell directly beneath the Total income label
- Type “=SUM(“ into this empty cell
- Select the first entry in your income column, press the shift Key, select the last income item in that column, then press the enter key to calculate your income total.
- Select an empty cell beneath the last items in your expense column
- Type “total expense” in this cell, then press the ‘Enter “ key
- Select the sell directly beneath the Total expense label
- Type “=SUM(“ into this empty cell

- Select the first entry in your expense column, press the shift Key, select the last expense item in that the same column, then press the enter key to calculate your total expense
- Final develop three rows at the top of Income column to record the difference between income and expenses for the period.

Monthly Income		Monthly Expenses	
Balance			
Income (Monthly)		Expenses (Monthly)	
Salary	\$ 2,000.00	Utilities	\$ 252.00
Interest Income	\$ 77.00	Food	\$ 350.00
Dividends	\$ 142.00	Internet	\$ 39.00
Rent Income		Cell Phone	\$ 25.00
Pensions		Cable TV	\$ 50.00
		Home Insurance	\$ 20.00
		Health Insurance	\$ 129.00
		Car Insurance	\$ 97.00
		Mortgage payments	\$ 300.00
		Clothing	\$ 200.00
		Fuel	\$ 150.00
		Investing	\$ 300.00

**Figure2.1 Easy Monthly Budget Spreadsheet Which Built-in Calculation**

## 2.4. Identifying sources of income, regular fixed expenses, and variable expenses

### Sources of income include:

- Interest on investments, dividends
- Proceeds from sale of assets
- Social security benefits, pensions, allowances, child assistance
- Wages, commission, bonuses, tips

### Fixed expenses include:

- Fees: School and university fees , Bank fees
- Insurance
- Loan repayments (if loan is based upon fixed interest rates) such as: Personal loans, Car loans, Credit card debts, Higher Education Contribution Scheme

- Public transport
- Rent

**Variable expenses include:**

- ✓ Car maintenance
- ✓ Living expenses such as: Food , Clothing , Medical
- ✓ Loan repayments if loan is based upon variable interest rates
- ✓ Miscellaneous expenses such as: Gifts, Recreation, Entertainment, Fines
- ✓ Mobile telephone
- ✓ Mortgage repayments
- ✓ Utilities such as: Water, Gas, Electricity, Telephone

## 2.5. Determine a surplus or deficit budget

Determination of a surplus or deficit budget is important to identify budget performance/ variance and give direction for next budget allocation.

- **Definition of Budget Surplus**

A budget surplus is when an individual, firm, or government has a certain amount of money left over after they/it has successfully subtracted their listed expenses from their total revenue or income.

- **How to Calculate a Budget Surplus**

On the most basic level, calculating a budget surplus is as simple as taking total revenue and subtracting all of the expenditures from a budget. The remaining balance is known as the budget surplus, assuming the number is a positive integer. This process is the same whether it is the budget of an individual, a firm, or an entire government.

- **Definition of a budget deficit**

A **budget deficit** is an accounting situation that happens when expenses exceed income. Individuals, corporate organizations and even the government can experience budget deficit, it means more money was spent than earned. A budget deficit usually reflects in the financial

statement, it is an indicator that there were fewer revenues recorded for the year but more expenses.

- **How to calculate the budget deficit**

There's a simple formula that you can use to calculate the budget deficit:

**Personal Budget deficit= Total personal Spending –Total personal Income**

**Note:** when using this formula if the balance is a positive integer, **it** is known as the budget deficit.

Example1. Assume that Mr. Kefiyalew has the following budgeted and actual income and expense and saving as follows

**Table2.1. Mr. Kefiyalew's budgeted and actual income and expense and saving**

Task	September1 budget	September30 actual	October1budget
Income	1600 birr	1600 birr	1600 birr
Rentexpense	500	500	500
Utilityexpense	300	350	300
Educationalpayment	200	250	200
Gift&contribution	100	90	100
Saving	200	200	200
Houseoperation	300	280	300

Illustration1:- prepare budget performance for September month

Illustration 2:- prepare budget allocation for October month

### Illustration 1 answer

**Table 2.2. Mr. Kefiyalew's prepared budget performance for September month**

Task/items	September 1 budget	September 30 actual	Budget performance (variance)
Income	1600 birr	1600 birr	Zero
Rent expense	500	500	Zero
Utility expense	300	350	Shortage by 50
Educational payment	200	250	Shortage by 50
Gift & contribution	100	90	Surplus by 10
Saving	200	200	Zero
House operation	300	280	Surplus by 20
Total shortage = 100 Total surplus = 30 In general Mr. Kefiyalew's personal budget performance is shortage by 70 birr			

### Illustration 2 answer

**Table 2.3. Mr. Kefiyalew's prepared budget allocation for October month**

Task	October 1 budget	Allocation	New allocation budget
For October 1			
Income	1600 birr	(70 )Birr	1530
Rent expense	500	0	500
Utility expense	300	Shortage 50 birr	250
Educational payments	200	Shortage 50 birr	150
Gift & contribution	100	Surplus 10 birr	110
Saving	200	0	200
House operation	300	Surplus 20	320

## 2.6. Explore reason for budget deficit

### Budget Deficit Causes

- In the case of an individual the causes of a deficit can be clear: you're spending more than you're making.
- Budget deficits happen in individual level when the costs of operation are greater than revenue. The same basic principle applies: the company is running at a deficit because the total amount that they're earning is less than what they owe.
- it's spending more than it is taking in

## 2.7. Investigate ways to reduce expenses or increase income

### Ways to reduce expense include:

- Comparing prices for essential items
- Monitoring use of utilities such as electricity, gas and water
- Moving back home
- Reducing expenditure on discretionary items such as expensive clothing, magazines, eating out
- Share accommodation
- Using cheaper modes of transport

### Ways to increase income include:

- Combining part-time work with studying
- Investigating eligibility for student allowances or other relevant government benefits
- Taking on a part-time job or holiday work

Self-Check – 2	Written test
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Name..... ID..... Date.....

**Directions:** Answer all the questions listed below.

**Test I: Multiple choice (5points)**

**I. Choose the best answer and encircle it.**

- Which one is **not** fixed expenses?
  - School and university fees , Bank fees
  - Insurance
  - Loan repayments (if loan is based upon fixed interest rates)
  - D. Car loans, Credit card debts**
  - Car maintenance
- Which one of the following is variable expense?
  - Car maintenance
  - Living expenses such as: Food , Clothing , Medical
  - Mobile telephone
  - Utilities such as: Water, Gas, Electricity, Telephone
  - All of the above.
- Which one of the following is correct statement?
  - Income is the money that a person earns from work, from investing money.
  - Expense includes fixed and variable expense
  - Variable cost doesn't vary with the amount produced.
  - Fixed costs remain the same, no matter how much output a company produces.
  - All of the above except C.
- Choose the true statement about spreadsheet
  - Can be simple or complex depending upon the extent of the individual's finance
  - It has one section for recording all money received as income and another section for expenses both variable and fixed expense.
  - Have a section to record the difference between income and expenses for the period

- D. All of the above
- E. None of the above.

## Test II: Short Answer Questions (15 points)

### II. Write your answer according to the given question.

1. Define what is income, expense, fixed expenses and Variable expenses?

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2. Discuss with your colleagues: What is spreadsheet, how to develop spreadsheet for income and expense?

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3. What Is a Budget Surplus and budget deficit?

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**Note: Satisfactory rating - 7 points and above, but Unsatisfactory if you score - below 7 points. You can ask your teacher for the copy of the correct answers.**

## Operation Sheet -1

### 1.1. Method for Developing your personal budget

#### 1.1.1. Tools and equipments

- I. Stationary
- II. Computer
- III. Calculators

#### 1.1.2. Procedures for developing your personal budget

- 1) Determine your current financial position – bank account & loans. Assume the following data indicate your financial position.

**Table 1: Your balances cash on hand and Owings**

	Balance at 30th June 2021
saver account	Br. 2,740
My savings account (with debit card)	Br. 404
Total bank account	Br. 3,144
Car loan – principal left to repay	Br. 3,000
Student loan (low interest)	Br. 2,000
Total Owings (liabilities)	Br. 5,000

- 2) Determine your anticipated income over the next twelve months. Assume the following data indicate your anticipated income.

**Table 2: Your budgeted income pattern for 2021 – 2022**

Income	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Total year
Wages	1600	500	500	500	1600	2000	1000	1600	500	500	500	500	11300
Other income		100	100	100	100				100	100	100	100	800
Total income	1600	600	600	600	1700	2000	1000	1600	600	600	600	600	12100

- 3) Determine your anticipated expenditure over the next twelve months. Assume the following data indicate your anticipated expenditure.

**Table 3: Your budgeted outgoings (expenses) for the next year**

Expenses	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Total year
Variable exp.	348	253	283	283	253	308	3408	258	273	353	233	673	6926
Fixed Exp.	140	140	140	140	140	140	140	140	140	140	140	140	1680
Total Exp.	488	393	423	423	393	448	3548	398	413	493	373	813	8606

**4) Do calculations to determine if you will have enough to cover expenditure in each month.**

**Table 4: Your summarized personal cash flow budget with times of negative cash flow but overall positive bank balance**

Income	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Total year
Total income	1600	600	600	600	1700	2000	1000	1600	600	600	600	600	12100
Total expenses	488	393	423	423	393	448	3548	398	413	493	373	813	8606
Net Cash flow	1112	207	177	177	1307	1552	-2548	1202	187	107	227	-213	3494
Opening Bank Balance	3144	4256	4463	4640	4817	6124	7676	5128	6330	6517	6624	6851	
Closing Bank Balance	4256	4463	4640	4817	6124	7676	5128	6330	6517	6624	6851	6638	

**5) Monitor your progress and revise for next year accordingly.**

According to monitoring of your cash flow of budget in two month namely January and June 2022 you have spent more than your monthly income so you have to adjust your next year budget allocation wisely.

## 1.2. Techniques for developing the spreadsheet for personal income and expenses

### 1.2.1. Tools and equipments

- I. Stationary
- II. Computer
- III. Calculators

### 1.2.2. Procedures for developing the spreadsheet for income and expenses

1. Use the financial data given bellow.

#### **Alebachew's Income January 30, 2021:**

- Wages .....Br. 8500
- Saving Interest from Bank.....Br. 1100
- Dividend.....Br. 850
- Rent income .....Br. 900

#### **Alebachew's spending January 30, 2021:**

- Car maintenance.....Br. 150
- Food.....Br. 5500
- Mobile telephone.....Br. 180
- Water and Electricity.....Br. 255
- Fees: School and university fees.....Br. 2200
- Insurance .....Br. 250

2. Open your income and expenses excel worksheet
3. Select an empty cell beneath the last items in your “ income “ column
4. Type “total Income” in this cell, then press the ‘Enter “ key
5. Select the sell directly beneath the Total income label
6. Type “=SUM(“ into this empty cell
7. Select the first entry in your income column, press the shift Key, select the last income item in that column, then press the enter key to calculate your income total.
8. Select an empty cell beneath the last items in your expense column
9. Type “total expense” in this cell, then press the ‘Enter “ key
10. Select the sell directly beneath the Total expense label
11. Type “=SUM(“ into this empty cell

12. Select the first entry in your expense column, press the shift Key, select the last expense item in that the same column, then press the enter key to calculate your total expense
13. Final develop three rows at the top of Income column to record the difference between income and expenses for the period.

**Solution:**

**Aschallew's spreadsheet for income and expenses would be:**

	A	B	C	D	E	F
1.		Total Monthly income	11350			
2.		Total Monthly Expense	8535			
3.		Balance	2815			
4.						
5.		Total Monthly Income	11,350		Total Monthly Expense	8,535
6.						
7.		Items	Amount		Items	Amount
8.		Wages	8500		Car maintenance	150
9.		Saving Interest from Bank	1100		Food	5500
10.		Dividend	850		Mobile telephone	180
11.		Rent income	900		Water and Electricity	255
12.					Fees: School and university	2200
13.					Insurance	250
14.						
15.						

### 1.3. Method for Determining the your budget performance (surplus or deficit budget) and new budget allocation

#### 1.3.1. Tools and equipments

- I. Stationary
- II. Computer

### III. Calculators

#### 1.3.2. Procedures for determining the budget performance and new budget allocation

1. Assume that you are given the following budgeted and actual income and expense and saving as follows

Task	budget for October 1	October 30 actual	November 1 budget
Income	1630	1630	1630
Rent expense	400	400	400
Utility expense	200	250	200
Educational payment	150	220	150
Gift & contribution	300	250	300
Saving	200	200	200
House operation	200	200	200
Loan payment	180	200	180

2. According to the above given data perform the following activities.

**Case 1:** prepare budget performance for October by following the procedure below

- 2.1. Create table with four columns and 9 rows like table below.
- 2.2. Fill the table with your budget and actual budget.
- 2.3. Determine your budget performance

Task	budget for October 1	October 30 actual	Budget performance (variance)
Income	1630	1630	Zero
Rent expense	400	400	Zero
Utility expense	200	250	Shortage by 50
Educational payment	150	220	Shortage by 70
Gift & contribution	300	250	Surplus by 50
Saving	200	200	Zero
House operation	200	200	Zero
Loan payment	180	200	Shortage by 20
Total shortage = 140 Total surplus = 50 Therefore Your personal budget performance had showed shortage by (120-50) 90			

**Case 2:** prepare budget allocation for November based of your result in the above task one and using the following table.

Note: to perform new allocation budget add the surplus on corresponding budget item October; subtract shortage from corresponding budget item of October and take as it is if the balance is zero.

Task/items	October 1 budget	Allocation	New allocation budget
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Income	1630	Zero	1540
Rent expense	400	Zero	400
Utility expense	200	Shortage by 50	150
Educational payment	150	Shortage by 70	80
Gift & contribution	300	Surplus by 50	350
Saving	200	Zero	200
House operation	200	Zero	200
Loan payment	180	Shortage by 20	160

LAP TEST-1	Performance Test
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Name.....

ID.....

Date.....

Time started: \_\_\_\_\_ Time finished: \_\_\_\_\_

**Instructions:** Based on the operation sheet you have done with your instructor and given necessary templates, tools and materials you are required to perform the following tasks within 2hours. The task is expected from each student to do it.

**Task-1 develop your personal budget**

**Task-2 Prepare Spreadsheet of your monthly income and expense**

## LG #20

## LO #3- Implement and monitor the personal budget

### Instruction sheet

This learning guide is developed to provide you the necessary information regarding the following content coverage and topics:

- Implement and Following Actual expenses and income
- Compare budgeted expenses and income
- Modify budgeted and actual amounts in the budget
- Discussing Handy hints of personal budget
- Ongoing review of the budget and incorporated updates

This guide will also assist you to attain the learning outcomes stated in the cover page. Specifically, upon completion of this learning guide, you will be able to:

- follow the budget according to plan for a period of time
- implement actual expenses and income for the period during which the budget are recorded and compared to budgeted expenses and income with any differences in budgeted and actual amounts looked at and the budget modified where necessary
- discuss handy hints for managing the personal budget
- conduct ongoing review of the budget to ensure it remains relevant and incorporate updates if necessary

### Learning Instructions:

1. Read the specific objectives of this Learning Guide.
2. Follow the instructions described below.
3. Read the information written in the information Sheets
4. Accomplish the Self-checks

### Information Sheet 3

## 3.1. Implement and Following Actual expenses and income

### 3.1.1. Implementing budget

**Implementing** is about putting things in place to help you succeed in the real world so you don't run out of money when your expenses are due. This involves keeping track of your actual income, expenses, and deposits to savings. Record keeping is a great way to keep track of your money.

#### Step to implement budget

Step 1:- Calculate your recurring monthly expenses

Step 2 Factor in how much you want to put into savings each month.

Step 3 Subtract your total recurring monthly expenses from your monthly income after taxes.

Step 4 Compare this amount to the amount you recorded during the preparation phase.

Step 5 Establish goals based on the calculations you have made and, most important, stick to them.

### 3.1.2. Five Steps for Budget Monitoring

**Step 1: Set your goals:** In budget monitoring, there are two types of financial goals: immediate and long-range. Focusing on how to use your money on the daily are immediate goals, while saving and spending money over years are long-range goals. Both of these goals are integral in budgeting for one reason: how you spend today will impact how much you'll save later in life.



Figure3.1. set your goal

## **Step 2: Calculate your income and expenses**

After establishing your financial goals, you'll have to conduct a personal budget analysis in order to achieve them.

A great way to do this is to evaluate your income and expenses. Most people create their budgets on a monthly basis as most bills pile in on a monthly schedule.

## **Step 3: Analyze your spending**

The main goal of budget monitoring is to ascertain that your expenses fall below your income. If you have more money going out than coming in, then that's your cue to make adjustments.

## **Step 4: Make adjustments**

Once you've monitored your income and expenses for some time, you'll be able to determine which areas of your budget need adjusting

## **Step 5: Commit to your budget**

There's a great deal of discipline required in sticking to a budget: overspending can be tempting, and the need to consistently record your income and expenses are sometimes so tedious that you'd want to completely forget about it.

Remember, budget monitoring keeps you away from being stuck in a financial rut while allowing you to enjoy life's little luxuries. You're doing this to stay happier in the long run.

### **3.2.Compare budgeted expenses and income**

Actual expenses and income for the period are implemented during which the budget are recorded and compared to budgeted expenses and income with any differences in budgeted and actual amounts looked at and the budget modified where necessary.

The difference between income and expenses is simple: income is the money your business takes in and expenses are what it spends money on. Your net income is generally your revenue,

or all the money coming into your business, minus all of your expense. If that number is positive, you are in good budget management.

### 3.3. Modify budgeted and actual amounts in the budget

A **budget modification** is a zero-sum adjustment of line items in a fiscal year budget. A budget modification does not change the value of the contract. If you increased the budget in one area, a proportional decrease would need to occur on another line item in the budget

**Budget Modification** means any replacement, alteration, or change to a specific line item or an obligation of funds from a specific line item in order to compensate for a line item(s) that has been overspent or is identified as a financial need prior to overspending.

In effective monitoring process of personal budget as actual expenses and income for the period are implemented during which the budget are recorded and compared to budgeted expenses and income with any differences in budgeted and actual amounts looked at and the budget modified where necessary.

### 3.4. Discussing Handy hints of personal budget management

**Handy hints to be discussed for personal budget management include:**

- How to avoid getting into financial difficulties
- How to minimize fees and charges imposed by financial institutions
- How to use credit card debt effectively
- The problems of impulsive buying, particularly when under peer pressure
- Ways to cut back on spending or change negative spending habit

### 3.5. Ongoing review of the budget and incorporated updates

Review is about critically analyzing your budget; determining whether your budget is realistic and then making adjustments to your plan.

After comparing your budgeting template to your income and expense tracking tool during the month and consider whether you need to adjust your budget in a particular category or adjust your budget for the next budgeting period.

### **How to review Your Budget**

- 1) Compare Actual vs. Planned Spending.
- 2) Assess New Income and Expenses.
- 3) Review Your Financial Goals.
- 4) Modify Your Budget to Meet Your Needs.
- 5) Identify and Plug Budget Leaks.
- 6) Review Your Budget monthly and annually and updates accordingly.

Self-Check – 3	Written test
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Name..... ID..... Date.....

**Directions:** Answer all the questions listed below.

**Test I: Multiple choice (6Point)**

**I. Choose the best answer and encircle it.**

- Which one is **not** the step to budget monitoring?
  - Set your goal
  - Calculate your income and expenses
  - Analyze your spending
  - D. Make adjustments**
  - Not Commit to your budget
- Which one is **false** statement?
  - Income is the money your business takes in.
  - Expenses are what it spends money on.
  - If the result of income minus expense is negative, your business is making a profit.
  - A budget modification does not change the value of the contract.
  - All of the above
- Which one of the following is the correct statement?
  - Budget Review is about critically analyzing your budget to determine whether your budget is realistic and then making adjustments to your plan.
  - Implementing budget is about putting things in place to help you succeed in the real world so you don't run out of money when your expenses are due
  - A budget modification is a zero-sum adjustment of line items in a fiscal year budget
  - All of the above
  - None of the above

**Test II: Short Answer Questions (14 Points)**

**II. Write your answer according to the given question.**

**1. List Steps for Budget Monitoring.**

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**2. Compare budgeted expenses and income.**

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**3. What is a Budget Modification?**

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**4. Why Is Reviewing Your Budget Important?**

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**Note: Satisfactory rating - 10 points and above, but Unsatisfactory if you score - below 10 points. You can ask your teacher for the copy of the correct answers.**

## Reference Materials

### Books:

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