

# [Example of the cost of taking up a loan is called interest essay](https://assignbuster.com/example-of-the-cost-of-taking-up-a-loan-is-called-interest-essay/)

[Economics](https://assignbuster.com/essay-subjects/economics/), [Budget](https://assignbuster.com/essay-subjects/economics/budget/)

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## Part I: Study Questions

Budget is an estimate comprising of both income and expenditures usually define for a period. It outlines financial goals and forces someone to consider what is important. A budget controls income and expenditure; in addition to that, it evaluates the process on how to achieve the financial goals.
Budgets are useful to an individual, family, and group of people, business, multinational corporations, government and the country as a whole. Budgets are crucial to beginning control of personal finances; it is the only to monitor expenses (Jones 618). Majority of adults have a budget and keep in check of their expenses. Budget provides a way of appropriating and allocating resources. The resources are allocated into various expenses such as food, housing and entertainment. A budget is not restrictive in any way it allows a person to spend their hard earned money the way they want. Therefore, it is important to design spending in an appropriate way, by putting into consideration three expense categories. That is fixed expenditure, variable expenditure, and periodic expenditure.
Expenditures are controlled through the budget and individuals and companies are able to monitor their expenditure levels. It is important to be real when preparing a personal budget, it is always challenging to eliminate things that one do not need. People are considered to be more successful when they cut down their expenditure. Therefore, one is not required to be so strict with the plan but, also small changes overtime can add up. Financial goals are attained because budget is helpful in avoiding unnecessary spending on services and items that will not contribute to the attainment of financial goals. Budget helps in organizing spending and savings (Jones 619). It categorizes expenditures and savings hence is useful in identifying which category what amount took. It also serves as a reference when organizing receipts, bills and financial statements. When budgeting as a family, it is important to involve the entire family because a joint effort yields greater results.
The common sources of income for a household are wages and salaries, properties like land and capital, income from government and profit from businesses. Households receive wages and salaries in exchange for labor they provide. Households receive social benefits such as employment insurance. Property income and returns from land and capital also constitute their income. Households at times receive such as private pension plans (Jones 619).
Common household expenditures are on health insurance premiums, food, clothing, household utilities such as electricity, water and gas, rent and transportation. There are other expenses that households incur and they include professional fees and union dues, purchase of investments like bonds or shares (Humphrey 801). Most of these costs are incurred on a day to day basis while others are incurred on a monthly basis.
Liability is a present obligation that arises because of the past events or transactions and are settled in the future. A liability will involve cash outflow because mostly it is the amount of money that one owes another person, bank or a company.

An asset is a resource with an economic value, owned by individuals, corporation or a country with the expectation that it will provide future benefit. Assets are grouped into two categories; there are liquid assets and illiquid assets. Liquid assets can easily be converted into cash, for example, the stock and government bonds. I liquid assets are assets that cannot be converted into cash; they include houses and antiques (Humphrey 802).
Paying bills on time is an important habit; it gives someone peace of mind. The individual can focus on other important things knowing that an unexpected service charges or late fees will not arise. It also eliminates disconnection of services such as internet, electricity and water. It enables one to keep services and products that he or she pays. Paying bills late might lead to incurring additional charges that were not in a person’s budget.
Saving money helps one to be prepared for any eventuality that might arise. It is important to save because of rear opportunities that might arise and one may take advantage of them. In addition to that, saving money is considered to be a way of installing the discipline in a person by ensuring one lives within his means.
It is important to have insurance because it provides security, reduces business losses or risks, provides peace of mind and encourage saving. Insurance acts a way of saving and individuals are paid premiums after policy expiry or on the terms of the policy. It provides peace of mind to people as insurance will compensate for any loss. Insurance also provides security and safety against loss in events such as death, fire and accidents.
In a life insurance cover, a person is required to make a fixed contribution on the agreed time mostly one year. The contributed amount is then paid to the beneficiary or the insured in the event of the insured death. Risks covered are premature death, income during retirement and illness. General insurance is an insurance policy that protects against damages and losses not covered by life insurance. The risks covered are accidental injury or death and property loss. Auto insurance is an insurance policy covering financial loss in case of vehicle accident. Sometimes hospital bills are paid for injuries sustained by this accident.

## Part II (A)

Monthly Budget
Part II (B)
While making the budget predation it was a little challenging because I had to be real to myself. The materials were ready available because I knew my people and institutions where to get my income. The challenging part was on the expenditure, it took time to eliminate things and some of the activities I found that they were not necessary. For example, I had to do away with the gym membership and opted to do it when I needed without so much committing myself on the membership fee.

## Works Cited

Jones, Homer. Managing Personal Finances by David F. Jordan the Journal of Finance vol. 7, No. 4, pp. 618-619
Humphrey, Kim. Consumer Culture and Personal Finance: Money Goes to Market Contemporary Sociology vol. 41, No. 6, (2012). pp 800-802