

Finance 2

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Household Budget Households need to prepare budgets in order to have their expenses controlled and ensure that they avoid unnecessary financial crisis. The budgets of household are simple compared to those of companies and governments that are more detailed and complex because of the many elements of costs. The major expenditure for any household is on food, rent, travelling, entertainment, and education. Below is a simple household budget.

Developed simple household budget

Budget element

Amount (£)

Income

salaries

1500

Family business

400

Gifts and donations from friends

100

Total income

2000

Expenses

food

600

rent

300

Travelling and repair

200

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Entertainment

150

Medicare

100

education

180

Holiday tours

150

Bank charges

50

contingencies

100

savings

170

Total

2000

From the budget, it can be seen that essential commodities constitutes a substantial proportion of the expenditure. The amount of money spent on food is very high in this simple budget. This can be attributed to the fact that the level of inflation continues to surge making the expense very high. At the same time, it can be seen that other charges like the bank and interest charges can be high when accumulated. Most households who fail to include them in the budget risk failing experiencing budget crisis. Moreover, it is clear that expenditures on entertainment and on social things are also very high if accumulated. From the budget, the expenses made on tours,

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entertainment is summed is almost equivalent to the amount incurred on the essential goods (Chiuri, 2000).

Preparing a budget is completely different from following the budget estimates. Most households who prepare budgets fail to completely adhere to their set budgets. This is because most households engage in impulse expenditures (Weston, n. d.). Moreover, the unpredictable changes in prices of the foods and other conditions have made it difficult to follow the budgets. Moreover, following this budget require finance discipline, which is normally a major problem to the households. Most households are unable to forecast on the expected changes in economic environment or may fail to spread their budgets throughout the budget period. In most cases, households tend to spend heavily immediately after receiving cash than towards the last quarter of the budget period.

Career change or further education might have a big impact on the budget. First, a change in career could enable an individual acquire additional knowledge on budget preparation or it could result in a change in the social class. For instance, a household who shift to study economics may learn on the need to increase savings or invest hence change the budget expenditure. At the same time, advancement in the level of education may result in a change in the social class (Pate & McKee, 2010). Such a change is accompanied by a change in the consumption pattern or a change in the products consumed. An advancement or change in career could translate in change in the level of income. A change of disposable income will lead to a change in the budget. More resources could mean increase in the amounts of savings or a reduction in the proportion of income spent on basic items. In conclusion, preparing a household income and strict operation within the <https://assignbuster.com/finance-2/>

budget is fundamental for successful finance management. Failure to manage finances well could lead to dire consequences on the households' budget. In addition, factors like changes in education level, income amounts, changes in family size, and age changes will influence the budget.

References

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