

My Financial Menu Card - How to prepare?

2008-07-25 17:17:17 Source : moneycontrol.com

When we visit a restaurant, we sit at a table, look around; soon waiter brings some food in some quantity on our table. We consume some of it and come out. Invariably we have no clue what we have had and in how much quantity. Is this how we proceed when we visit a restaurant?

Well, hmmm....this might sound little exaggerated and sarcastic. But unfortunately, when it comes to our family finances, most of us behave in this manner. We have no clue how much we have spent on each of the expense categories.

Take this quick test, guess how much did you spend on restaurants, coffee shops and movies/theaters in last quarter? Or easier still, how much did you spend on clothes and accessories in last one year?

Making a family budget is like ordering food from the menu card. When we visit a restaurant, we take a look at the menu card and order variety of food. It is ordered in quantity to suit our appetite.

Making family budget is exactly same. There are varieties of expenses on which we can spend our hard earned income. From those categories we need to decide on how much we intend to spend on which category.

Most of us struggle to write and follow family budget because we do not approach it in structured manner. Broadly there are two categories of expenses viz. mandatory expenses and voluntary expenses. These can be further classified into fixed expenses and variable expenses.

Examples of mandatory fixed expenses are house rent, school fees etc. Mandatory variable expenses are groceries, medical expenses etc. Voluntary fixed expenses are club membership fees, subscription to magazines etc. Voluntary variable expenses include items like eating out, vacation etc.

Before beginning to write your budget, it is important that we learn to track them. Under normal circumstances tracking is not very difficult though in some cases it might take some time to develop the habit.

When we begin tracking expenses, firstly we should note down mandatory fixed expenses e.g. rent, school fees etc. Next, note down voluntary fixed expenses like club fees etc. Since these are fixed expenses, not much tracking is required.

After noting down fixed expenses, move ahead and note down variable category expenses. This is little difficult to track unless there is a habit. Under variable category, start with noting down voluntary variable expenses first. This is because expenses like eating out; movies etc. are incurred at lesser frequency compared to mandatory variable category. Also they are incurred either by credit card or in cash. If it is paid by credit card, then tracking becomes further easy.

If the habit of tracking (variable) expenses is not there, then start with tracking only 1/2 expense categories like movies etc. Ensure to note them down within 24 hours of incurring. Only after the habit is firmly formulated add more categories to track.

After about a year or two, venture into tracking mandatory variable expenses. From third year onwards start making budget i.e. deciding how much to spend on which categories.

Unless habit of noting down expenses and making a budget is not inculcated since childhood, do not start in haste. Unlike our forefathers who used to earn in cash and spend in cash, we receive our earnings in cheque, direct credit to banks and cash. Also unlike them, where they used to spend only by way of cash, we spend in cash, cheque, direct debits from bank and credit/debit cards. We have multiple sources of inflow and multiple sources of outflow. Therefore if we start in haste we will end up in waste.

- Gaurav Mashruwala

The author is a Certified Financial Planner.