

BUDGETING AND DEBT MANAGEMENT



INTRODUCTION TO BUDGETING

- Budgeting is the systematic process of estimating future income and expenses over a specific period.
- It acts as a financial blueprint that guides spending and saving behavior.
- Helps individuals and businesses ensure that expenses do not exceed income.
- Provides clarity on where money is coming from and where it is being spent.

IMPORTANCE OF BUDGETING

- Budgeting helps in tracking every rupee earned and spent, improving transparency.
- It supports better financial decision-making by providing structured information.
- Prevents unnecessary spending and reduces financial waste.
- Encourages saving habits, which are crucial for long-term financial security.

OBJECTIVES OF BUDGETING

- Ensures efficient allocation of limited financial resources across various needs.
- Maintains financial stability by balancing income and expenditure.
- Helps prepare for future financial needs like education, retirement, or emergencies.
- Enables individuals and businesses to achieve both short-term and long-term financial goals.

TYPES OF BUDGETS

- **Personal Budget:** Focuses on managing individual or household income and expenses.
- **Corporate Budget:** Used by companies to plan revenues, costs, and profits.
- **Government Budget:** Represents a country's financial plan including taxation and public expenditure.
- **Flexible Budget:** Adjusts based on actual levels of activity or income, making it more realistic.

COMPONENTS OF A BUDGET

- **Income:** Includes salary, business profits, rent income, or any other earnings.
- **Fixed Expenses:** Regular and predictable costs such as rent, loan repayments, and insurance premiums.
- **Variable Expenses:** Expenses that fluctuate, like food, travel, and entertainment.
- **Savings & Investments:** Money set aside for future needs and wealth creation.

STEPS IN BUDGETING

- First, identify all sources of income to understand financial capacity.
- Next, list all expenses to get a clear picture of spending patterns.
- Categorize expenses into essential and non-essential for better control.
- Allocate funds wisely based on priorities and financial goals.

ZERO-BASED BUDGETING

- In this method, every unit of income is assigned a specific purpose.
- The goal is to ensure that income minus expenses equals zero, meaning no money is left unaccounted.
- Helps eliminate unnecessary expenses by forcing justification of every cost.
- Commonly used in both personal finance and corporate budgeting.

50-30-20 RULE

- 50% of income is allocated to essential needs like housing and food.
- 30% is used for wants such as entertainment and lifestyle choices.
- 20% is saved or invested for future financial security.
- This rule simplifies budgeting and is ideal for beginners.

FINANCIAL DISCIPLINE

- Financial discipline ensures consistent adherence to a budget.
- Helps avoid impulsive and emotional spending decisions.
- Builds strong financial habits over time.
- Leads to improved financial stability and independence.

BUDGETING MISTAKES

- Many people underestimate their actual expenses, leading to budget failure.
- Ignoring irregular costs like medical expenses or repairs can disrupt financial plans.
- Not reviewing or updating the budget regularly makes it ineffective.
- Lack of emergency funds can force individuals into debt.

BUDGETING TOOLS

- Spreadsheets allow customization and detailed tracking of finances.
- Budgeting apps provide real-time tracking and reminders.
- Financial software offers advanced analytics and reporting features.
- Manual methods like notebooks can also be effective if used consistently.

INTRODUCTION TO DEBT MANAGEMENT

- Debt management involves planning and controlling borrowed funds responsibly.
- It ensures timely repayment and prevents financial stress.
- Includes strategies to reduce debt burden and avoid default.
- Essential for maintaining a healthy financial profile

TYPES OF DEBT

- Secured debt.
- Unsecured debt.
- Revolving debt.
- Installment debt.

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- Secured Debt requires collateral, such as property or assets, reducing lender risk.
 - Unsecured Debt does not require collateral but usually has higher interest rates.
 - Revolving Debt allows continuous borrowing up to a limit, like credit cards.
 - Installment Debt is repaid in fixed amounts over time, such as personal loans.

GOOD VS BAD DEBT

- Good Debt contributes to future income or asset creation, like education loans.
- Bad Debt does not create value and often has high interest rates.
- Understanding this distinction helps in making smarter borrowing decisions.
- Proper debt selection is key to financial growth.

CAUSES OF DEBT

- Overspending beyond income leads to financial imbalance.
- Lack of proper financial planning increases reliance on credit.
- Unexpected emergencies like medical expenses can force borrowing.
- Absence of savings makes individuals dependent on loans.

IMPACT OF DEBT

- High levels of debt create financial stress and anxiety.
- Reduces ability to save or invest for future goals.
- Affects credit score negatively if repayments are delayed.
- Limits financial flexibility and opportunities.

DEBT-TO-INCOME RATIO

- This ratio measures the proportion of income used to repay debt.
- A lower ratio indicates better financial health and repayment capacity.
- Lenders use this metric to assess loan eligibility.
- Maintaining a balanced ratio is crucial for financial stability.

CREDIT SCORE

- A credit score reflects an individual's creditworthiness.
- Higher scores increase chances of loan approval and lower interest rates.
- Timely repayment and responsible credit usage improve the score.
- Poor credit scores limit financial opportunities.

DEBT STRATEGIES

- Prioritize repayment of high-interest debts to reduce financial burden.
- Consolidate multiple debts into a single loan for easier management.
- Negotiate with lenders for lower interest rates if possible.
- Create a structured repayment plan and stick to it.

SNOWBALL METHOD

- Focus on paying off the smallest debts first while maintaining minimum payments on others.
- Provides psychological motivation as debts are cleared quickly.
- Builds confidence and encourages continued repayment efforts.
- Suitable for individuals needing motivation.

AVALANCHE METHOD

- Prioritize debts with the highest interest rates first.
- Reduces total interest paid over time.
- Financially more efficient compared to the snowball method.
- Requires strong discipline and patience.

DEBT CONSOLIDATION

- Combines multiple debts into one single loan.
- Often comes with lower interest rates and simplified repayment.
- Reduces complexity and improves financial management.
- Helps avoid missed payments.

EMERGENCY FUND

- Acts as a financial safety net during unexpected situations.
- Reduces dependence on loans or credit cards.
- Ideally should cover 3–6 months of living expenses.
- Essential for financial resilience.

BUDGET FOR DEBT

- Allocate a fixed portion of income specifically for debt repayment.
- Cut down unnecessary expenses to increase repayment capacity.
- Increase payment frequency to reduce interest burden.
- Monitor progress regularly for better control.

INTEREST RATES

- Interest rates determine the cost of borrowing money.
- Higher rates increase total repayment amount significantly.
- Compound interest can cause debt to grow rapidly if unpaid.
- Understanding terms before borrowing is critical.

CREDIT CARDS

- Credit cards provide easy access to funds but can lead to overspending.
- High interest rates make unpaid balances expensive.
- Minimum payment option can trap users in long-term debt.
- Responsible usage is essential to avoid financial issues.

LOAN TIPS

- Borrow only what is necessary and affordable.
- Compare loan options to get the best interest rates.
- Understand all terms and conditions before signing agreements.
- Avoid taking multiple loans simultaneously.

BEHAVIORAL ASPECTS

- Emotional spending often leads to unnecessary debt.
- Lack of financial awareness increases poor decision-making.
- Social pressure can influence lifestyle spending.
- Financial education helps in controlling such behaviors.

FINANCIAL PLANNING

- Budgeting and debt management work together for financial stability.
- Proper planning aligns income, expenses, and liabilities.
- Ensures a balance between spending, saving, and borrowing.

FINANCIAL LITERACY

- Financial literacy improves understanding of money management.
- Helps individuals make informed financial decisions.
- Reduces chances of falling into debt traps.
- Essential for wealth creation and financial independence.

CASE STUDY

- Monthly income: ₹50,000 represents earning capacity.
- Expenses: ₹35,000 shows cost of living.
- Debt repayment: ₹10,000 indicates liability management.
- Savings: ₹5,000 reflects financial discipline.

BUDGET REVIEW

- Regular review ensures the budget remains relevant.
- Adjustments are needed due to changes in income or expenses.
- Helps identify areas of overspending.
- Improves long-term financial planning.

LONG-TERM GOALS

- Includes major life goals like buying property or retirement planning.
- Requires consistent savings and investment strategies.
- Needs long-term financial discipline and planning.

SHORT-TERM GOALS

- Focus on immediate financial needs like emergency funds.
- Includes small savings goals or debt repayment.
- Helps build confidence and financial habits.

TECHNOLOGY ROLE

- Digital tools make budgeting easier and more accurate.
- Apps provide real-time financial tracking.
- Automation helps in saving and bill payments.
- Enhances financial efficiency.

RISK MANAGEMENT

- Includes strategies to reduce financial risks.
- Insurance protects against unexpected losses.
- Diversification reduces investment risk.
- Avoiding high-risk debt ensures stability.

ETHICAL PRACTICES

- Encourages honesty in financial dealings.
- Promotes responsible borrowing and spending.
- Builds trust and financial credibility.

CONCLUSION

- Budgeting and debt management are essential life skills.
- They support financial independence and security.
- Continuous monitoring and discipline are required.
- Smart financial decisions today create a stable future.

THANK YOU

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