



CHALLENGES OF BUILDING A PERSONAL BUDGET

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Abstract: Personal finances can be considered as a blessing because they force people to think about their personal decisions are also an obvious way to make money management, which has limitations and complications. However, it should be mentioned that the idea of a job for life in modern times has no place. Many people have started to work in more than one job in order to secure the necessary income family. They do not do so by desire but by necessity. This due to instability at the workplace and ways to get over this instability is through the accumulation of wealth.

Few people can have really a perfect experience when it comes to personal finances, because mistakes are common and strategies are lacking due to lack of sufficient knowledge about personal finances. It is strange that people walk in the same traps that their ancestors have experienced as not having learned anything. The most essential principle will determine the personal finances of people is their ability to control income and expenses. Personal management finance is one of those areas that require concentration and discipline to overcome the difficulties.

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Introduction:

1. PERSONAL BUDGET

A budget is a quantified financial plan for a forthcoming accounting period. (Sullivan, Arthur; Steven M. Sheffrin 2003). Personal budgets, are tools that can help we to meet our financial goals each and every one of us chooses how to use our money (Monteverde, Matthew. 2010). Money management is a widely discussed topic in the contemporary finance literature. With the world in the shape it is today, managing personal finance should be at the top of everyone's list. Making wise money decisions is not easy. Having a budget will make conscious about our purchases because we will have a guide to help we determine whether our finances are still in good status.

There are other several benefits as to why having a personal budget is important, but the most vital of them all is that it can help you stay away from debt. Having a budget is the first step toward financial freedom. Budget is just a system to achieve your goals.

Creating one will enable you to track our spending, save up for big purchases, control our credit card expenses, and gain financial wealth. The best way to build a solid financial future and to actually build wealth is to have a solid financial plan.

The process of building a budget can help to take a hard look at priorities and to determine whether we are on track to reaching financial goals. Creating a simple personal budget is one of the first steps in gaining control of our spending habits. A budget is not much good if we don't track what you are spending your money on. We have to be ready to take the challenge in personal finances from a realistic point. This means that we adapt our circumstances and try to form a strategy for successfully passed budgeting system challenges.

The budget helps you better understand your true financial picture by showing you income, savings and debts at one single place. It lets you access all your balances and transaction details anytime and

anywhere. We will always have access current and accurate information about our finances and can clearly see how much money you have to spend and how much debt we have accumulated. In reality a budget is just a schedule of income and expenses, a way of documenting how much money comes in and how it should sensibly be spent (Hogarth, J. M., 2002).

There is everything to gain from sticking to a budget, but adhering to a budget is difficult for many people because it usually means denying cravings and luxuries beyond reach.

Budgeting is an example of a tool that we can use to keep your personal finances under control. A budget is all about planning plan. We see the resources that you have available and then make a decision. It seems like a simple matter, but many people struggle to get as much information for managing personal finances, because they are only able to plan things and have difficulty in achieving the goals they have set themselves. They plan budgets, but fail to make every effort to manage these personal budgets as required.

As is the way to creation an effective personal budget?

First of all we must be very honest about our income and your expenses. Do not see the numbers, but focus on providing real control over our activities. If we are realistic in building the budget, then it is more than likely that we will get into a good position.

2. THE INCOME

Personal income is earnings of a physical person received from all sources, including wages, bonuses, dividends, interest, rent.

The major sources of personal income are:

- Wage
- Business activity.
- Earnings from use of property.
- Social aid.
- Remittance of emigrant

Wages is major element of individual income. Government social aid programs also make significant contribution to personal income of certain population groups.

According to Kwok, H., Milevsky, M., and Robinson, C. (1994) structure of personal income in different countries is driven by form of government, economical environment, common types of ownership and traditions.

The remittances have a significant impact on the reduction of absolute poverty in the country by directly raising household income and consumption. Remittances are defined as the portion of international migrant workers earnings sent back from the country of employment to the country of origin (Rebitzer, J. and M. D. Robinson., 1991).

The way in which remittances are used is what determines their effect on the economy. the remittances may go to productive investment, education and health they have positive growth effects through increased output and productivity. Remittances improve the standards of living for the receiving households and if the migrants are from poor households remittances contribute to poverty alleviation.

Specific financial goals are vital for a good life. We must decide which goals to pursue. Our financial goals can range in order to developing an extensive savings and investment program for our future financial security (Fry, T.R.L., Mihajilo, S., Russell, R. and Brooks, R. 2008).

- **How can we increase our income?**

There are many ways to increase our income - consider some of the following suggestions:

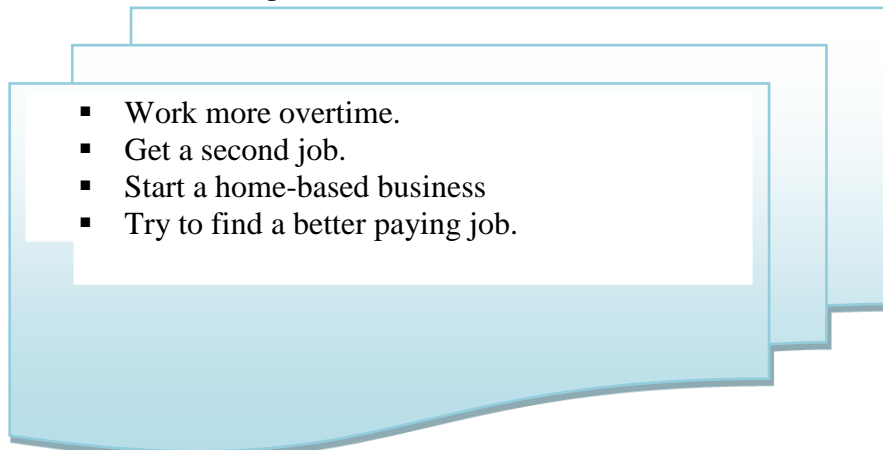


Figure 1: The way to increase the income

3. THE EXPENSES

The first step to successful personal budget is to know how and where we spend our money. Personal spending is a key component of the financial system, as they form a very important part of the budget process (Wilhelmson, K., Andersson, A., Waern, M. and Allebeck, P. 2005). It is the single most important factor in keeping personal finances under control.

Discretionary expenses are the ones over which you will have the most control. When we are in difficulty with our finance, it must be time we determine we general spending behaviour. One way to do this is to create your personal budget to guide you with your income and expenses as well as manage your finances properly.

When we have a budget at hand, we will discover the typical things we buy and make efforts to reduce or eliminate unnecessary expenses. We must carefully collect all your previous bills, statements as well as receipts of purchases you made in the previous months.

By collating these important documents and sorting them according to categories, we will come up with the monthly expenses we normally incur.

We will also be able to determine where we will typically overspend and thus, make corrective actions to minimize the spending next time. A lot of young people fall into this trap because they simply do not have the discipline to control their personal finances.

There is a reason why certain cuts in expenditure are necessary and the person has to have the discipline to sustain those cuts. Decision making will be an ongoing part of our personal and financial situation. Thus, we will need to consider the lost opportunities that will result from our decisions of spending. Since decisions vary based on each person's situation and values, opportunity costs will differ for each person.

The crux of the matter is that everyone bears a responsibility for their personal finance and they have to take the necessary steps to control their inputs and outputs in line with the targets that they have set themselves. To reduce our spending, we first need to know where our money goes. Every person must start out by keeping track of all of our expenses for a month (Wilhelmson, K., Andersson, A., Waern, M. and Allebeck, P. 2005).

Many young in Albania have not an job. This means they have not a lot of money to spend, they often still live with their parents. Young people often take over the expenses they incur from their parents, like paying for their own studding, buying a books, or new computer. In this way their families will borrow money and get into debt, because is too difficult with all this spending. This often involves larger sums than the money they borrowed in order to education their children.

Budget is designed not to prevent our enjoyment of life but to help we obtain the things we want. However, people make purchases without considering the financial consequences.

We should detail our living expenses and our other financial obligations in a spending plan. Spending less than we earn is the only way to achieve long term financial security.

Savings represent something personal. Goals and opportunities for individuals to save are different and it is impossible to provide a suitable solution for all. However, there are basic principles that are worth to follow (Higgins, David P., 1983).

A practical way to save is the investment of money in different stages, which may follow a set pattern. This approach helps us to manage pertaining to our current situation.

Table 1: Steps of revenue administration

| Revenue administration: | |
|--------------------------------------|----------------------|
| In my family live together: | |
| Adults | <input type="text"/> |
| Children | <input type="text"/> |
| Personal monthly net income (lek) | <input type="text"/> |
| Net income of the spouse / es(lek) | <input type="text"/> |
| Other income (money)(lek) | <input type="text"/> |
| Loan obligations(lek) | <input type="text"/> |
| Rent together with other costs (lek) | <input type="text"/> |
| Cost of living (lek) | <input type="text"/> |
| Securities (Lek) | <input type="text"/> |
| Other expenses (Lek) | <input type="text"/> |
| Rezultati (Lek) | <input type="text"/> |

Source: Bank of Albania

How much can you save at 6 months, can you try to save for such a period? 6 months is not a long time, but it may be long enough to allow us to make a serious effort to leave some "footprint" on our debts, so as to make a step forward. Budgeting helps set discretionary income apart. A budget needs to be flexible so that any unforeseen changes can be accommodated in the plan. The right balance with detail and simplicity needs to be achieved.

4. THE ASSETS OF PERSONAL FINANCE

The assets of a family help to know the financial situation.

Table 2: List of key assets personal finance

| Financial Assets | Assets for personal use | Luxury assets |
|------------------------------------|--------------------------------|------------------------|
| Cash | The main residence | Jewel, precious stone. |
| Deposits in financial institutions | Cars | Holiday properties |
| Retirement savings plans | Mobile | Precious collections. |
| Tax compensation | Clothing | |
| The value of pensions | Household Appliances | |
| Stock | Kitchen appliances | |
| Treasury bills | Equipment maintenance | |
| Goods orders | Sports Equipment | |
| Precious metals, precious stones. | TV, video, computer, DVD | |
| Real estate | | |

Source: Bank of Albania

5. THE LIABILITIES OF PERSONAL FINANCE

Family as microeconomic subject has own liabilities because each asset has its own source of formation.

Table 3: List of key liabilities personal finance

| Current liabilities | Long-term liabilities |
|----------------------------|------------------------------|
| Credit cards | Consumer loans |
| Mobile phone | Home mortgage loan |
| Electricity | Other mortgage loans |
| Natural gas, fuel | Debt investments |
| Repair services | Studies debts |
| House rental | Guarantee to pay |

| | |
|---|--|
| Tax of Property, water | Credit value of the various contracts |
| Personal income tax | |
| Insurance premiums | |
| Current portion of long-term debt. | |

Source: Bank of Albania

Current liabilities are short-term liabilities which have a maturity period one month. Long-term liabilities are longer than a month and are paid in monthly installments for many years.

Conclusions and Recommendations

- The budget helps to better understand our true financial picture by showing we income, savings and debts at one single place. Budgeting is a great way to realize possible avenues of minimizing expenditure.
- Making wise financial decisions isn't easy. If we build a budget we will be conscious about our purchases because we will have a guide that help for to determine whether our finances are still in good status
- We should do a complete review of our finances at least once a year. Changing personal, social, and economic factors may require more frequent assessments.
- The budget must to be flexible so that any unforeseen changes can be accommodated in the plan. A budget must be adapted to our specific of cash flow circumstances.
- The life is expensive and all the people have to creating their budget. We must to focus more on our needs.
- Most of young people in Albania fall into financial trap because they do not have very information of discipline of personal finance to control their finances.

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