MANAGING HOUSEHOLD BUDGET USING PERSONAL ACCOUNTING

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ABSTRACT: The knowledge of Accounting is practiced everywhere by organizations for keeping a track of the Income and Expenses and preparing the Final Accounts- Profit and Loss Account, Balance Sheet and the Cash Flow Statements. This is essential, because in a company there are various transactions of all types which need to be recorded and summarized into preparing the Final Accounts at the end of the year. This same knowledge of accounting can be utilized in managing household budgets and for recording Income and expenses. At the end of the month this will give the household head or individual an idea as to what is happening to the money which is coming, where it is being utilized and how much is the saving. It can also be used to keep a track of the cash flow during the month. This could be a big tool or application in the field of Personal Finance.


INTRODUCTION: We, in our daily lives, have some Income from various sources and we spend this on various expenses. It is said that we should live within our means, i.e., spend money within the constraints of our income. This advocates that we should not be too miserly or too extravagant. But we should spend money meeting important expenses of our day-to-day lives, assigning priority to such expenses when they are due. While in the modern days, we have a lot of options for maintaining personal finance like Personal loans, Credit cards, EMI cards, Equipment Finance schemes and a lot of specialized products like Mutual funds of all types, Insurance, Systematic investment plans for mutual funds, etc. While these instruments facilitate the optimum use of resources one has, the knowledge of income and expenses, along with an idea of cash flow goes a long way in comfortably managing the personal finances and feeling safe and secure. This article tries to give a person a simple and safe tool using Personal Accounting for managing household expenses.

DIFFERENCE BETWEEN PERSONAL ACCOUNT AND PERSONAL ACCOUNTING: According to the knowledge base of Accounting, there are three types of accounts - Nominal Accounts, Real Accounts and Personal Accounts. Nominal accounts are the accounts of various categories of Income and Expenses, Real accounts are the accounts of Assets and Things and Personal Accounts are the Accounts of persons and organizations. Here in this article we aim to prepare the accounts of an individual who wants to manage his household budget. It is in 'his' reference that the term “Personal Account” is being used here. Personal Accounting is an extended term to the general practice of the various tools of accounting as applied for managing the accounting of an individual, and giving him statements which work like beacons to the individual at various stages, for managing his household income and expenses for a period which could be a month, or a year.

A person can extend this formal knowledge base and maintain his own accounts by having a formal book or register of accounts dealing with the listing of his income and expenses. The individual can maintain a cash book just like a company maintains, and list all its income and expenses. This would give the person a systematic knowledge as to where he has spent his money and on what accounts. This will also give a person a feeling as to how much money he earned as his income for the month and how much he spent on various expense accounts and what is his savings.

THE PERSONAL CASH BOOK: An individual can make a personal cash book just as shown below to record his income and expenses. On (left) one side, he can record his incomes from various sources coming into his cash or bank accounts and on the (right) other side he can record his expenses on various accounts.

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The format of the cash book with one cash and bank accounts is as below:

<table>
<thead>
<tr>
<th>Date 1</th>
<th>Details 2</th>
<th>F. No 3</th>
<th>Cash 4</th>
<th>Bank 5</th>
<th>Curr Bal 6</th>
<th>Date 7</th>
<th>Details 8</th>
<th>F. No 9</th>
<th>Cash 10</th>
<th>Bank 11</th>
<th>Remarks 12</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The above format of the cash book shows 12 columns with 6 for the Incomes (1-6) and 6 for the expenses (7-12).

**THESE ARE DESCRIBED AS BELOW:**

1. Records the date on which a particular income was generated from any source. It could be incomings in cash or in bank from some sources like a person, salary, rent or any other income source.

2. Records the details of the source from which the income is coming. It records the name of the income source. It could be any person, salary, other income, etc.

3. Records the folio number of the account where the income source transactions are listed in details.

4. Records the amount of cash if it comes from any income source.

5. Records the amount of money coming to a bank account from any income source.

6. Records 2 entries, one for the cash and the other for the bank to show the current balance on the start of a date, after adding any new income and subtracting the expenses as of on that date.

7. This is the first column on the right hand side and records the date of any expense.

8. Records the name of the expense head, which is incurred on a date as mentioned in the previous column.

9. Records the folio number or the page on the register at which all transactions related to a expense head is made.

10. Records the amount of money expenses in cash on an expense head as mentioned in the column 8.

11. Records the amount of money expensed by a bank account on an expense head as mentioned in column 8. This could be on account of issuing a cheque for the expense or expense by electronic transfer.

12. Records the remarks like any additional note or cheque number for the expense head as mentioned in the column 8.

This completes all the entries in the cash book of the individual.

**THE PERSONAL LEDGER:** This comprises of various pages having page or folio – number with the heading of a expense account or an income account. It is expenses or incomes account head wise. It can show two sides, the debit and the credit side on the left and right hand side respectively. The incomes are noted in the right hand side of a ledger (Credit side) and the expenses are shown on the left hand side (Debit side) of the ledger depicting an account head.

**THE EXAMPLE OF AN INCOME AND EXPENSE ACCOUNT IS AS SHOWN BELOW:**

**Income Account: Eg., Rent Received:**

<table>
<thead>
<tr>
<th>Date 1</th>
<th>Details 2</th>
<th>Amount Dr 3</th>
<th>Date 4</th>
<th>Details 5</th>
<th>Amount Cr 6</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>10/11/2013</td>
<td>Bank Name</td>
<td>2000.00</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The Journal Entries are as below: Dr Bank or Cash...........Cr., Income account eg., Rent Received.

The columns 1, 2 and 3 represent the debit side of income source, and the columns 4, 5 and 6 represent the credit side of income source.

**Expense Account: Eg., Electricity Charges:**

<table>
<thead>
<tr>
<th>Date 1</th>
<th>Details 2</th>
<th>Amount Dr 3</th>
<th>Date 4</th>
<th>Details 5</th>
<th>Amount Cr 6</th>
</tr>
</thead>
<tbody>
<tr>
<td>11/11/2013</td>
<td>Cash</td>
<td>1200.00</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The Journal Entries are as below: Dr. Expense Account eg., Electricity Charges.............Cr., Cash or Bank Account.

**The Personal Journal:** This is a part of the Personal Accounting Register, which is concerned with noting down the unconventional cash or bank transactions between any two accounts; could be expenses or income or simply between a cash or bank accounts to investments (short and long term) in the form of Bank Fixed Deposits or Mutual Funds. For eg., Money in a bank account is transferred to another bank’s fixed deposit account, the transaction may be noted down as below. Dr. Bank Deposit Account.........Cr., Bank Account.
Transfer from Bank Account to Bank Deposit Account.

<table>
<thead>
<tr>
<th>Date</th>
<th>Details</th>
<th>Amount Dr.</th>
<th>Date</th>
<th>Details</th>
<th>Amount Cr.</th>
</tr>
</thead>
<tbody>
<tr>
<td>14/11/2013</td>
<td>Bank Deposits</td>
<td>5000.00</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Also the individual should make sure that the interest accrued either in the bank account or in the fixed deposits of the NAV appreciation in the mutual fund accounts should be updated regularly in the journal and ledger from time to time by creating suitable mutual fund account, interest on fixed deposit account and interest bank (Savings) account. At the end of the month, total money inflow in the cash or bank account from various sources and expenses by cash and bank accounts should be subtracted to show how much money was saved in the month.

Also, the expenses in the month should be calculated by totalling the Cash and Bank Columns 10 and 11 in the Personal Cash Book at the end of the month to derive the expenses. Based on the average expenses for about three to four months, the budget for the next month should be made and then the expenses should be monitored and kept track of on a monthly basis. If there is a shortfall or an excess of cash, then expenses should be curtailed or money should be saved in some investment account like fixed deposit or mutual funds.

CONCLUSION: In this way we can extend the knowledge of Accounting to managing personal expenses and income incurred during the month and hence for the year. This will go a long way to help people manage their expenses and prepare budgets for the coming months and thus keep them financially aware and secure.

REFERENCES: