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# MODULE 3.: COST PLANNING

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*„PEOPLE BUY THINGS THEY DON'T NEED, WITH MONEY THEY DON'T HAVE, TO  
IMPRESS PEOPLE THEY DON'T LIKE”*

*GEORGE FOOSHEE*

**ACADEMY OF HOME ECONOMICS** AGREEMENT NO. 2019-I-PL01-KA204-065804



# WHAT IS A HOUSEHOLD BUDGET?

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- "A budget is telling your money where to go instead of wondering where it went." Dave Ramsey
- A household budget is a plan for income, expenses, but also savings.
- It's about setting yourself financial goals, both for spending and for income.
- By creating a budget, it's much easier to draw any conclusions about our financial situation.



# FOR WHAT PURPOSE IS A HOUSEHOLD BUDGET ~~CREATED?~~

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- The purpose of a household budget is to become aware of our income, needs and financial habits.
- A budget helps you to make better decisions and increases the likelihood of financial success.
- With a budget, it is easy to see what you can afford and when you should stop your cravings.



# WHY RUN A BUDGET IF YOU CAN'T PREDICT ALL THE EXPENSES ANYWAY?

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- Of course, it is impossible to predict all expenditure 100%. However, that is not the purpose of budgeting.
- The purpose is to establish a plan of action for our money and then stick to that plan.
- It will always happen that we have unforeseen expenses.
- For such cases we create a fund for irregular expenses or a contingency fund.



# WHAT IS THE DIFFERENCE BETWEEN WRITING DOWN EXPENSES AND A HOUSEHOLD BUDGET?

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- Writing down expenses and a household budget are two completely different things, although it is very difficult to have a good household budget without writing down your expenses fairly accurately.
- Writing down expenses is an activity which, after a certain time, allows us to see what we are spending.
- It is an analysis of history, which will very quickly allow us to see where money is slipping through our fingers.
- Writing it down, however, is only noting the fact of spending money in the appropriate category.
- A household budget, on the other hand, allows you to plan what and how much you will spend in the future.



# WHY MAKE SAVINGS?

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- Saving is like a healthy lifestyle.
- You can go on a month-long diet, lose the pounds you want, and then return to your old, unhealthy habits.
- It is the same with saving.
- Therefore, if you want to avoid the financial yo-yo effect, you should form the right habits every day.



# SAVING AND SHOPPING

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- Shopping list.
- Information on product labels: e.g. product weight - you see two packets of walnuts; one packet is slightly cheaper, but if you check the weight, you find that the cheaper packet contains 150 g and the more expensive one 250 g. In addition, if you compare the price per kilo of walnuts, you may find that the walnuts in the smaller packet have a higher price per kilo.
- Receipts - get in the habit of checking receipts after shopping and keep fiscal receipts for complaints.



# SAVING AND SHOPPING

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- Always ask for a receipt or, if you do not have one, write down the amount on a piece of paper immediately after making a purchase.
- Keep receipts in your wallet or in a dedicated box / drawer.
- You can use a mobile app to store receipts, such as:  
ToCoMoje <http://tocomoje.pl>  
Kwitki <https://www.dobreprogramy.pl/kwitki,program,ios,6628345938634881>  
PanParagon <https://panparagon.pl>





# SAVING AND TELECOMMUNICATIONS

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- Choosing the right mobile operator, as well as the right subscription for each family member.
- Controlling mobile data and WiFi consumption.
- Blocking premium text messages.
- Being careful about calls from unknown numbers outside your country.



# SAVING AND CONSUMING ENERGY

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Energy sources:

- renewable: water, sun and wind,
- non-renewable: oil, coal and gas.

Remember to choose the right electricity supplier and tariff.

Remember to develop the habit of saving energy.



# SAVING AND USING WATER

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- Analyse the relationship between different activities in the home and water consumption.
- Assess and control the water consumption of household appliances.
- Form water saving habits.



# SAVING AND HEATING

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- Choose efficient heating systems wherever possible.
- Develop habits that encourage saving.



# SOME TIPS ON HOW TO EFFECTIVELY MONITOR SPENDING:

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- Regularly, once a week, set aside some time to write down all your expenses for the last 7 days.
- Put this activity permanently on your calendar.



# HOW TO START A HOUSEHOLD BUDGET?

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- 1. Don't complicate things!** - You only need a few categories of expenses to create a budget. Later on, when you become proficient, you will be able to expand the list as you like.
  - round off what you put in to full amounts, preferably to tens of zlotys; don't play around with zlotys or pennies; you will make a mistake anyway 😊
- 2. Take the first step** - don't wait, don't put it off until tomorrow or the weekend. Force yourself. Print out the document templates and fill them in. Don't have a printer? Then just type them out on a piece of paper. It really is a minute and you can have your household budget in half an hour.

And in case you were wondering about the details, go back to point one.



# HOW TO START A HOUSEHOLD BUDGET?

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- 3.** Make it simple enough to be able to explain to your child - the household budget is not your individual business. It is a joint "family project" in which everyone in the household should be involved. Of course, you can do the fitting on your own, but working on a budget with your life partner and with the participation of your children (even if only passively) is an excellent way to educate yourself financially and to integrate your family members in joint efforts to improve the financial situation. In short: everyone is supposed to understand the budget, not just you.
- 4.** Know that you will fail - even governments' budgets don't close, so don't be discouraged by failure. Practice makes perfect. If your budget goes awry, know that this is normal. You will improve it later. You will "hit" the numbers more and more towards your goal month by month. Don't set yourself up for success from the first attempt.



# WHY DO I NEED TO START CREATING A HOUSEHOLD BUDGET WITH INCOME?

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- To create a household budget plan, we first need to know how much money we have available.
- Therefore, we first specify the income and then divide the entered amount between the expenditure categories. While adding the planned expenses, you should immediately check whether they do not exceed the income.
- If we have such a possibility, it is worthwhile to support the planning with tools which automatically show how much money remains to be spent.
- Such a tool may be an appropriate spreadsheet or application.





# WHAT ARE SPENDING CATEGORIES AND HOW DO YOU FIT THEM INTO YOUR BUDGET?

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An expense category is that larger "box" to which we will assign expenses related to a single topic. Examples of categories could be:

1. Shopping
2. Children and education
3. Housing/house and garden
4. Health
5. Entertainment

They should be rather general so that it is easy to determine to which category to assign the selected operation.





# HOW MANY MAIN CATEGORIES SHOULD THERE BE ~~IN THE BUDGET?~~

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- The number and description of categories is a very individual matter.
- To begin with, it is worth considering what we spend money on each month.
- What are our fixed costs.
- Keeping a budget on a piece of paper is definitely easier when the number of categories is small. Often 4 or 5 categories are enough.
- In the next stage, when you become more experienced, you can expand the categories and add new ones as needed.



# DO YOU NEED SUBCATEGORIES?

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- Subcategories in your budget can come in handy if you want to write down your expenses in more detail to see what you spend the most money on.
- For example, suppose you have a category called Transport and you use taxis, public transport and your own car at the same time.
- Of course, you can plan the total amount of your expenses in one category, but lumping all expenses in one "box" will only answer the question how much money you spend on transport, but you will no longer find out how much your car costs and how much your taxi costs.
- This knowledge could help you to decide to use public transport or the bicycle more often and to plan your spending more optimally in future periods.



# WHAT IS THE MODEL EXPENDITURE ~~STRUCTURE?~~

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The Model Spending Structure, is a way proposed by Richard Jenkins of how we should decide what we spend our money on. It consists of several elements:

- 60% of net income is recurring expenditure; this is not just about essential expenses such as food, but also our obligations to people/third parties, e.g. house payment, telephone, loan repayment;
- 10% short-term savings, i.e. funds that will soon be allocated to planned, larger expenses – for example a holiday trip, renovation of the flat;
- 10% earmarked for long-term purposes, e.g. overpayment of credit, as well as building up financial security;
- 10% for small pleasures and whims;
- 10% are pension investments; we should not use these funds before we actually retire.



# WHAT ARE REGULAR AND IRREGULAR ~~EXPENSES?~~

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- Regular expenses are costs that we incur every month. We are aware of them and it is much easier to plan for them as they are always present in the household budget.
- For example, telephone and television bills, food shopping, etc.
- Irregular expenses are costs which we incur only once in a while.
- Examples of irregular expenses are: car maintenance, property insurance, a child's birthday party, doctor and medication.



# WHAT ARE REGULAR AND IRREGULAR ~~EXPENSES?~~

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- It often happens that despite being irregular expenses, they appear in our budget periodically - for example, we usually pay home or car insurance once a year.
- Having data from previous years it is easy to predict this type of expenditure.
- It is much easier to plan a budget with such expenses using appropriate tools. It often happens that despite being irregular expenses, they appear in our budget periodically - for example, we usually pay home or car insurance once a year.
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# SOME TIPS ON HOW TO EFFECTIVELY MONITOR YOUR SPENDING

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- To make it easier, use the programmes and apps available to monitor your budget at home so that you know how much you spend on the cinema and how much you spend on beer with your friends.
- You can check if there is a category in which you spend too much but don't notice it (uncontrolled spending), e.g. snacks at work.



# TOOLS FOR MONITORING EXPENDITURE

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- I. A notebook, pen and calculator - there's nothing difficult about writing down all your expenses, adding them up and subtracting them from your earnings.





# TOOLS FOR MONITORING EXPENDITURE

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2. Spreadsheets - in a computer xls file you can build tables yourself and write formulas that replace your calculator, add up your expenses yourself and subtract them from your earnings.



# TOOLS FOR MONITORING EXPENDITURE

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## **3. Expenditure monitoring applications offered by banks:**

- some banks provide tools that catalogue what you spend money on, add it up and show you a full picture of your monthly spending by credit card and bank transfers,
- cash expenditures have to be manually entered into the application.



# TOOLS FOR MONITORING EXPENDITURE

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## 4. External applications for managing a household budget:

- you can use both online programs as well as those that you install on your computer;
- increasingly popular are applications for mobile phones that allow you to enter your expenses straight into the application such as Microsoft Money, Home Finance, Home Budget, eWallet;

- **Family Finance Tracker**

<https://play.google.com/store/apps/details?id=com.familyfinancetracker.application&hl=pl>

- **Kontomierz** <https://play.google.com/store/apps/details?id=pl.kontomierz>

- **Szybki budżet – Menedżer wydatków**

<https://play.google.com/store/apps/details?id=com.blodhgard.easybudget&hl=pl>

- **Pan Paragon** [https://play.google.com/store/apps/details?id=pl.primesoft\\_mrreceipt](https://play.google.com/store/apps/details?id=pl.primesoft_mrreceipt)



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# SUPER QUIZ

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<https://kapitalni.org/tof>



# WHY DO I NEED A HOUSEHOLD BUDGET IF I HAVE DEBTS/CREDITS?

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- Having debts and credit, especially consumer credit, is very expensive.
- It also brings with it a huge risk of falling into a debt spiral from which it is very difficult to escape. Sometimes this is impossible without specialist help.
- Sometimes credit consolidation is a good solution.
- Consistent household budgeting necessarily introduces financial discipline.
- It will allow you to create a plan for repaying credit and to pinpoint the time when this will be possible.
- It allows you to see if you are solvent and how much of your income is taken up by interest on credit.



# **I'VE BEEN CREATING A HOUSEHOLD BUDGET FOR A FEW MONTHS NOW, BUT EACH TIME SOMETHING DOESN'T ADD UP FOR ME. IS THERE ANY POINT IN CONTINUING TO BUDGET?**

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- It is perfectly normal that the budget does not fit together.
- Sometimes it will be a few zlotys difference, sometimes a few hundred. We are not able to foresee all situations, which will happen to us and which will require our financial involvement.
- The household budget can be adjusted during the month and adapted to the current situation, of course taking care that the expenses do not exceed the income.
- There is nothing wrong with this. The important thing is to have control over your finances and a fixed spending plan.





# **I'M VERY BUSY AND KEEPING A BUDGET AND ALL THE WRITING UP OF EXPENSES TAKES UP A LOT OF TIME.**

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- It all depends on our own organisation. There are several scenarios from which we can choose how we want to proceed.
- The first thing is to plan and analyse the budget.
- The average planning time is about an hour once a month.
- However, if we are planning a budget for the first time, a bit more time is to be expected - if only to get to know the tools and define the categories.



# I'M VERY BUSY AND KEEPING A BUDGET AND ALL THE WRITING UP OF EXPENSES TAKES UP ~~A LOT OF TIME.~~

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There are several ways of recording expenses:

1. If you have a mobile app then as soon as you make an expense, you enter it into the app. This should take between 30 seconds and a minute.
2. We can collect receipts from the day and complete the expense log every evening. It will take about 10 minutes to complete every day. With this method, we don't need to have a mobile app. We can keep a budget in a web browser, a sheet or on a piece of paper.
3. As above, we collect receipts, but complete the budget once a week. Then it will take us from 30 minutes to an hour.

The values given above are of course approximate. How much time you really need depends on the number of categories into which you divide your budget, the number of operations you perform monthly and many other factors.