DOMESTIC FINANCIAL MANAGEMENT

(A Comparative Study of Rural and Urban Families)

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Abstract

Finance is the blood of business unit. Without proper planning and control over finances, a business cannot run successfully because business decisions can never be thought of without finances. Like-wise, finance also plays a great role in the life of an individual or a family.If a person wants to get a better life, that means he wants to improve his standard of living, he will have to do proper planning and control the domestic finance. The planning and control of domestic finance is simply known as domestic financial management. Domestic financial management is an integrated part of overall family management. Domestic financial management can also be known as family financial management, personal financial management and household financial management. This involves planning and controlling of the sources of income, the allocation of income among various element of cost of living and finally the control of income and expenses of a family. Thus, domestic financial management can be defined as scientific process of decision making of saving and investment, finance and liquidity function of a family to achieve targets and needs of family members within a given framework of financial resources including time. This paper includes the meaning, challenges, process, components of domestic financial management and also the comparative analysis of primary data with references to domestic financial management between rural and urban families.

Key words– Domestic Financial Management, Domestic Financial Planning, Domestic Financial Control and Domestic Budget.

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Introduction

World is a stage where on man gets opportunity of action. As on a stage, the dramatis personal bedeck themselves and strut on the stage. Similarly, man is bedecked with body and senses and acts according to his capabilities. As for a playwright theatre is whole lie and he strives hard to improve his skills to the point of excellence, similarly for each man life is a precious gift of God and he tried hard for amelioration of its quality.

Betterment of life involves many aspects, in which one important aspect is “economic factor”. Economic factor involves financial management. Life can be easy, comfortable and sumptuous by the right use of domestic financial resources. The maximum utilization of available financial resources can raise standard of living to dizzy heights and this can be achieved by proper domestic financial management.

Objectives of the Study

Objectives provide the route and direction to a study to achieve its ultimate goal. The main objectives of this research is: to know that do people manage the domestic finance?, if yes then how?, is there any difference between the domestic financial planning of rural and urban families?, etc.

Methodology of the study

With the help of review of literature, this study develop a conceptual framework of domestic financial management, which include meaning, challenges, process and components of domestic financial management.In order to achieve the predetermined objectives, it was decided to select a sample of 50 respondents from rural and same number from urban area. Following villages are randomly selected in this study: Gantiyala, Sepao (Basni), Meghlasiya, Cheela, Barali and Binzvadiya. These families were selected at random and divided into three strata: on the basis of occupation, income and nature of the family. For the purpose of collecting primary data, from 100 families from rural and urban areas; direct personal interview technique was to be used with the help of a questionnaire. The information were analysed with the help of statistical tools.

Meaning of Domestic Financial Management

If we trace the origin of finance, there is evidence to prove that it is as old as human life on earth. The word finance was originally a French word. Finance is an art of managing various available resources like money, assets, investments, securities etc.Finance is the blood of business unit. Without proper planning and control over finances, a business cannot run successfully. Like-wise, finance also plays a great role in the life of an individual or a family. From ancient to the present era human being has been undertaking many activities for his livelihood. The purpose is to fulfil his basic needs. For this he started to earn income, which can be termed domestic finance. If a person wants to get a better life, that means he wants to improve his standard of living, he will have to do proper planning and control the domestic finance. The planning and control of domestic finance is simply known as domestic financial management.

Domestic financial management is as integral part of overall family management. Domestic financial management can also known as family financial management, personal financial management and household financial management.

Domestic financial management is concerned with the efficient and effective management of finance of a family in order to achieve the happiness and better standard of living. This involves planning and controlling of the sources of income, the allocation of income among various element of cost of living and finally the control of income and expenses of a family.

Thus, domestic financial management can be defined as scientific process of decision making of saving and investment, finance and liquidity function of a family to achieve targets and needs of family members within a given framework of financial resources including time.

If through domestic financial management we are in control of our finances and saving a portion of our income every month and year, we will probably be able to make a quick money transfer and continue our normal daily routines with minimal to no impact.

Challenges of Domestic Financial Management

Domestic financial management may be one of the most difficult challenge, people and families encounter throughout their lives.

One reason is that personal finances are constantly changing. Constant change is difficult to track, and when it is not properly managed, it can be impossible to stay ahead.

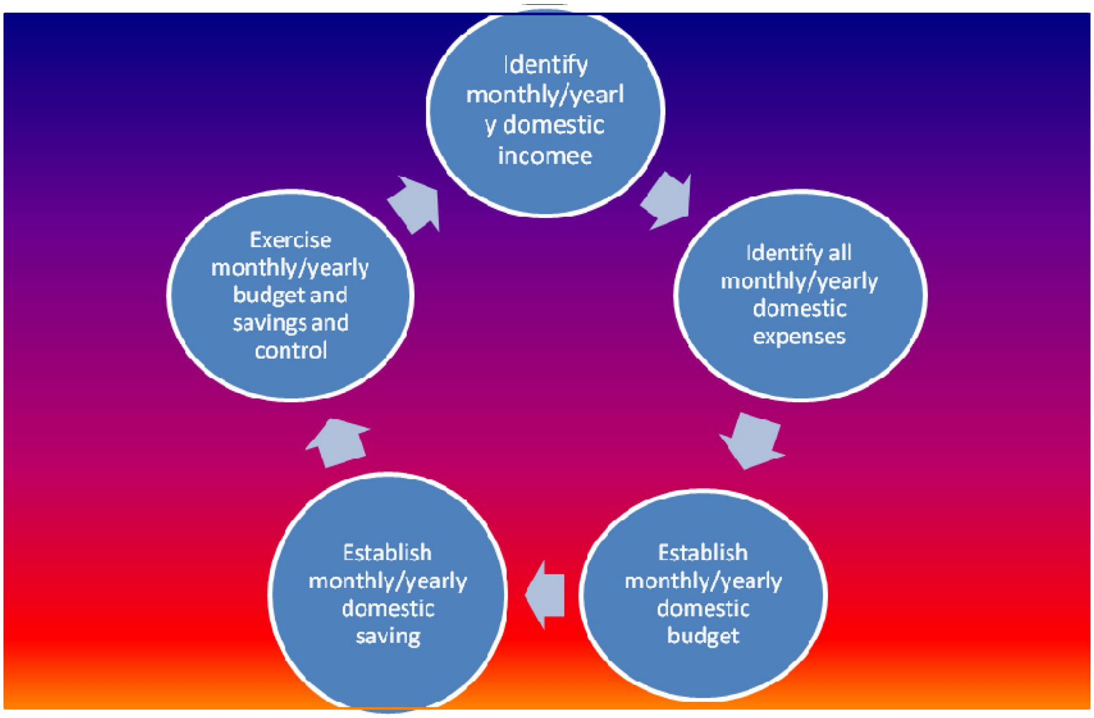
Another reason it is difficult to manage household finances is that the management becomes a job or a household chore for which someone must take responsibility. As we can probably imagine, not too many people want to sit down and balance their finances after a full week's worth of work.

People may also be apprehensive about managing their finances because they are concerned about what they might discover about their current financial situations. If they have not been properly managing their personal finances, there is a high probability that their finances will be in poor shape, and additional work will be needed to regain financial control. In many cases, poor financial habits developed over the years will also need to be changed or eliminated.

Another common problem is that too many people prefer to simply procrastinate and save their financial stress until a later time instead of working to correct it immediately.

Domestic Financial Management- A Process

Each and every system has a certain process. As like, Domestic financial management also includes some steps as a process of DFM. The process of DFM include following steps:



From the above, four steps named as Domestic Financial Planning and last is known as Domestic Financial Control. The concept is simple: once we understand our current domestic income and expenditure, we can define a comfortable monthly or yearly budget and savings. As a result of defining these steps, we can exercise our monthly budget and saving on a routine basis and obtain full control of our personal finances.

Identifying monthly domestic income is a fairly easy step in the domestic financial management process. Income is money we receive for work or from investments. Many people work for hourly wages; others work for an annual salary. Some people have additional income through tips or commissions. Some people work for themselves, which is called self-employment/ income from business and profession. All these types of income are earned income and are subject to income taxes and other taxes.

Identifying our domestic expenses will consume a greater volume of time than the previous step and, in many cases, could result in some added stress. It is critically important that all expenses are identified and documented. The expenses include, but are not limited to: expenses related to food, housing, utility, transportation, communication, medical, education, entertainment, social responsibility, etc.

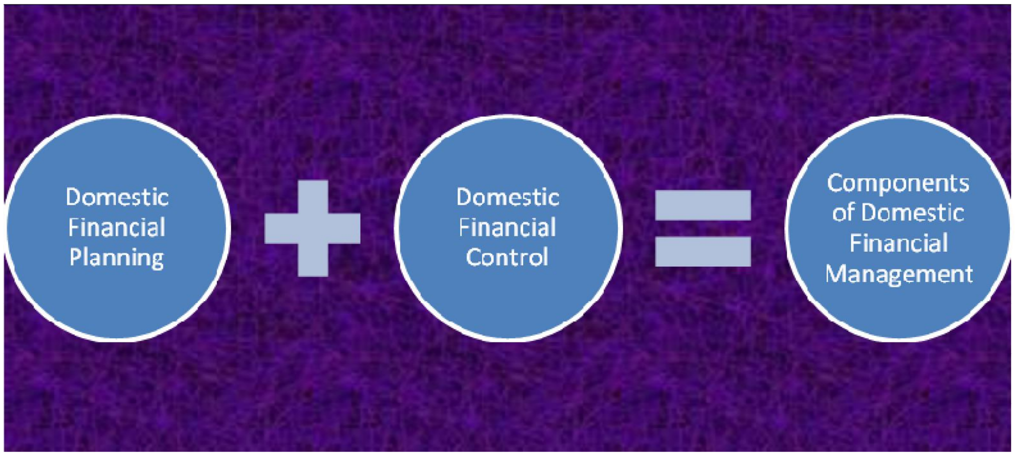
Establishing a monthly domestic budget is a little more challenging than the previous two steps in the domestic financial management. The degree of difficulty in this step is directly related to the constant change that occurs in the choices we make on a monthly basis, in addition to changes that occur in the economy, which are out of our control. A budget is simply an income and spending plan.

Once monthly budget has been established, the remaining amount of earning will be **defined as domestic savings**. Having a regular monthly savings contribution is extremely important. If we have not been contributing to our savings, we will be in a vulnerable position with no money at hand. When unexpected or expected expenses come up, we will be forced to put those expenses on credit. Establishing savings is not only a great habit, but it also provides us with peace of mind. Save the money is not sufficient, but also this amount should be invested in proper manner.

Exercise is to put into practice. Once we have successfully accomplished the first four steps in the domestic financial management process, we will have a process or plan to follow. We will earn income every month, we will pay our monthly expenses, and then we will have the responsibility of exercising our budget and saving every month. If a person properly follows this step, he will begin to notice some specific trends occurring. In this process he will find that expenses begin to decrease because of the eliminated unnecessary expenses. After this it is necessary to monitor and review the plan periodically. We can monitor our financial performance by comparing the actual value with the budget value at regular intervals. Review your progress monthly, quarterly, or at any other interval we feel comfortable, but at least half-yearly, to determine if our program is working.

Components of Domestic Financial Management

Two important aspects include in domestic financial management. These are known as key components of domestic financial management.



Domestic Financial Planning

Domestic financial planning is a road map of domestic financial management. Financial planning is necessary because saving, investment, financing and liquidity decisions interact with each other and should not be made separately and independently. Financial planning pertains to the function of finance and includes the determination of the family financial objectives, formulating policies and promulgating policies and developing financial procedure. The keys to successful financial planning are good record keeping and the consistent implementation of plan. Domestic Financial Planning includes- income planning, spending planning, insurance planning, investment planning, tax planning, retirement planning, debt planning, etc. In general, it involves six steps;

Assessment current financial position:- The first step in preparing a financial plan is to assess current financial position with a view to know where we stand financially. A person's financial situation is assessed by compiling simplified versions of financial statements including domestic balance sheets and domestic income statement.

Define financial goals clearly:- The second step in financial planning is to determine financial goals in order to know where we want to be financially. The financial goals are formulated by looking into our financial position, earning capacity of the family members, the life cycle stage we are in now, future financial needs and wants, needs of the family members, etc. Financial goals may be in two types- short term and long term goals.

Design a plan:- After identifying and defining the financial goals, the next step is to design a detailed plan incorporating certain small, measurable steps that we can take to achieve these goals, and put this action plan to work.

Set up a budget for all financial goals:- After preparing detailed plans, the next step is to prepare suitable cash budgets for each plan so that one can ensure that the goals are achieved well within the budgeted amount.

Implement the plan:- Execution of a financial plan after requires discipline and perseverance. The best way to implement the plan is to get it done by a professional financial planner or advisor.

Monitoring and Reassessment:- After implementing the selected financial plans, the final step is to monitor and review the plan periodically.

Domestic Financial Control:-

Without controlling the planning cannot be reach at success. So after the domestic financial planning and implementation, the next significant component of domestic financial management is domestic financial control. There are some techniques, which can help the domestic financial control as follows:-

- Financial Ratio Analysis
- Cash flow analysis
- Budgetary control system

Financial Ratio Analysis:-

Financial Ratios provide certain quick estimates to assess the financial performance of an individual or family. The ultimate objective of financial analysis is to help us reach our financial goals easily within the budgeted time. Similarly, these financial ratios also help us to evaluate our financial performance at regular intervals, monthly or quarterly, to ensure that we are progressing well toward reaching our final goal. Some important ratios are as solvency ratio, liquidity ratio, saving ratio, debt ratio etc.

Cash Flow Analysis

Without proper cash flow planning, one could easily get caught in a debt trap. The main purpose of cash flow analysis is to draw an overall picture of our cash inflow and cash outgoes at regular periodical intervals i.e. weekly or monthly. In simple terms, cash flow accounts for every inflow and outflow of our money. Cash flow analysis is always carried out on current cash inflow and outflow; it does not take into account our future cash receipts and cash outflows.

Budgetary control System

"Budgets are not records of expenses, they are forecasts of expenses".

Budget derives from the French word "Bougette", which is a "pouch or small bag with its contents". An expended current definition is the annual statement of expected income and expenses. Budget is prepared for future, usually for the next one year. A budget is a spending and saving plan based on expected income and expenses. The process of preparing the budget is known as budgeting. There are many advantages of budgeting or budget or budgetary control system:

- Budgeting is a tool for managing money.
- It provides a means to compare actual performance with our targeted estimates.
- Budgets can help in controlling expenditure as it helps to ensure most disciplined spending as we always check whether our expenditure are well within the budget amount.
- Budget can help in reducing wastage of money.
- Budget can improve saving regularly.
- Budgeting helps to break bad habits.
- A budget for family spending gives order to family money.
- A budget for a family spending provides a blueprint for reaching goals.
- Budgeting helps a person to prepare in advance.etc.

Good budgetary control system needs, record keeping of domestic transactions. Keeping good records can help to prepare a better budget. Good information will also help to do a better job analysing the budget.

Analysis of Data with Reference to Domestic Financial Management

For the purpose of domestic financial management, it is necessary for a person to aware about the following point:

- There should be maintaining bank account.
- Maintain the records of domestic income and expenses
- Proper investment of savings
- What should be the Sources of fund for long term investments?
- There should be proper retirement planning, etc

To know that do the respondents fulfil these points or not, some questions were asked through the questionnaire. The results of survey are as follows:

1. Respondents have Bank A/C or not

Out of 50 respondents of urban area and 50 respondents of rural area, all respondents **(100%)** have bank a/c.

2. Maintain the records of domestic income and expenses

Out of 50 respondents of rural area, only **18%** respondents maintain the domestic records but in urban area this % is **40%**. The percentage of maintaining the records of domestic income and expenses are very less in both areas, because without proper recording system, domestic financial management cannot be possible.

3. **Reasons for not maintaining the domestic record**

Reasons	**In Rural Area**	**In Urban Area**
Lack of Time	13	14
Lack of Awareness	14	1
Lack of Interest	14	15
Total	**41**	**30**

The aforesaid table shows the reasons for not maintaining the domestic records. The table reveals that awareness of maintaining the domestic records are less in rural families as compare to urban families.

4. **Management of Domestic Finance**

When we asked the question to respondents that do they manage their domestic finance, this study was found that only **16%** respondents manage the domestic finance in rural area but in urban area this % is **44**. Those who manage domestic finance, **80%** belong to families headed by employee, **10%, 7% and 3%** families headed by other occupation, businessman and professional.

5. **How to manage the domestic finance?**

The four alternatives were given to respondents for domestic financial management, namely, **through family budget, accounting system, saving and investment planning and other system (if any).** From those respondents who manage their domestic finance, all were select to third (saving and investment planning) alternative. None of the respondent prepares monthly family budget and maintain any systematic accounting system.

6. **What should be the Sources of fund for long term investments?**

The result of this question is as follows:

Table 2.1

Sources of Fund for Long Term Investment

Rank	Savings & Investments		Short Term Loan		Long Term Loan		Total
	Rural	**Urban**	**Rural**	**Urban**	**Rural**	**Urban**	
I	2	**40**	**48**	10	0	0	50
II	**44**	8	2	**40**	4	2	50
III	4	2	0	0	**46**	**48**	50
Total	50		50		50		150

The aforesaid table shows the ranks provided by respondents to sources of fund for long term investment. The data reveals that short term loan has the first rank, savings and investments have second and long term investment has third rank in rural area. Savings and investments have first rank, short term loan has second and long term loan has third rank in urban area.

7. Preference of Investment of Savings

Table 2.2

Preference of Investment of Savings in Urban Area

Rank	Land & Building	Jewellery	Financial Assets	Total
I	18	**2**	**30**	50
II	**28**	20	2	50
III	4	**28**	18	50
Total	50	50	50	150

The aforesaid table shows the preference in investment of savings of respondents in urban area. The data reveals that the first rank was provided to financial assets, second rank to land and building and third rank to jewellery.

Table 2.3

Preference of Investment of Savings in Rural Area

Rank	Land & Building	Jewellery	Live Stock	Financial Assets	Total
I	0	**42**	6	2	50
II	7	7	**34**	2	50
III	**41**	1	8	0	50
IV	2	0	2	**46**	50
Total	50	50	50	50	150

The aforesaid table shows the preference in investment of savings of respondents in rural area. The data reveals that the first rank was provided to jewellary, second rank to live stock, third rank to land and building and fourth rank to financial assets.

8. Time Value of Money

When we asked the question to respondents that do you consider the time value of money, at the time of investment, this study found that 95% families do not consider the time value of money in rural area and 87% families in urban families.

9. Retirement planning

The only **15%** respondents do retirement planning in rural area, but **57%** respondents do retirement planning for future in urban area.

10. After Retirement will they continue to work or enjoy the life

The **58%** respondents prefer to continue to work after retirement in rural area but **78%** respondents prefer to continue to work after retirement in urban area.

11. Future Financial Planning

When we asked to respondents that what are your 5 year's, 10 year's and 15 year's financial planning, respondents were provide information of only 5 year's financial planning in both rural and urban area because they did not do any financial planning for 10 and 15 year's.

Conclusion

Domestic financial management is concerned with the efficient and effective management of finance of a family in order to achieve the happiness and better standard of living. This involves planning and controlling of the sources of income, the allocation of income among various element of cost of living and finally the control of income and expenses of a family.

This paper conclude that all the respondents may be belong to rural as well as urban families wish to have a better life,which can be achieved through domestic financial management. But data reveals that there is inconsistency between their wish and practice, because domestic financial management needs sound information system, which require proper maintaining the records of income, expenses, saving and investment and decisions related to sources of investment, alternatives of investment, time value of money, having bank a/c, financial planning for future as well as retired life etc. Most of the respondents do not consider and aware the above points but while comparing the rural families with urban families, urban families more aware and concern about domestic financial management.

It is requisite for every man, who wants to better his life, who wants to take any decision regarding his future, to maintain detail of each and every financial aspect of his life and measure and analyse it through proper domestic financial management.

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