

# Budgeting 101

Question and Answer  
Samples and Techniques

# A Budget is Like a Recipe

- If you are going to bake a cake from scratch, you'll probably want to use a recipe to ensure it bakes properly and tastes delicious. A recipe is simply a list of required ingredients along with the quantity, followed by instructions on how to add them together. If the recipe is followed properly, you will be rewarded with a tasty final product.
- Your personal finances aren't much different. Your income is the sum of ingredients, and your expenses are the quantities to use, while the budget tells you how to put it all together. With a cake recipe, if you're short an egg or put in too much flour, the cake will not taste right or even bake properly at all. The same goes for your finances. If you spend too much money on one expense it may make you short on another expense, which would yield results that are less than expected.

# Determine your income

- You need to know how much money you will have each month to meet your expenses. If you are starting a new job you may want to use a payroll calculator to determine how much money you will bring home each month.



# Types of Income

## Planned Income

- Regularly get it (monthly/bi-weekly/weekly)
  - A job
  - An allowance
  - Unemployment benefits
  - Child support
  - Social Security Check
  - Welfare
  - Other

## Unplanned Income

- A surprise/unexpected
  - Lottery
  - Birthday/Gifts
  - Tax return



# Determine Your Fixed Expenses

- Your fixed expenses are items that will not change from month to month. These items can include rent/mortgage, a car payment, car insurance, your electric/water bill, your cable bill and your student loan.
- You should also include savings in this category as well to cover any unplanned expenses. It is important to pay yourself first. Ideally you should put at least ten percent of your income into savings each month.

## Unplanned expenses

- Car repairs
- Medical injuries
- Home repairs



# Determine Your Variable Expenses

- After you have listed your fixed expenses you will want to determine the amount that you spend on variable expenses. These items may include your groceries, eating out, clothing and entertainment. These are also considered variable because you can cut back on how much you spend on these categories if you need to. You can determine what you spend by reviewing the last two or three months of your transactions in each category.

# Compare Your Expenses to Your Income

- Ideally you should create a budget where your outgoing expenses match your income. If you assign every dollar a specific place this is called a zero-dollar budget. If your amounts do not match you will need to adjust accordingly. You may need to scale back on your variable expenses. If you have extra money at the end of the month, reward yourself by putting that money directly into savings. If you have cut back significantly on your variable expenses and still can not meet your fixed expenses you will need to find ways to change your fixed expenses.

# Build in money for debt reduction

- If you have debts, your budget should already include the minimum payments that you have to make each month. Now you need to find the money to pay down those debts. Look at your numbers again, and determine where you are willing to make sacrifices to get out of debt. FYI- This is a good time to realize how much eating out adds up!





# Track Your Expenses

- After you have set up your budget you need to track your expenses in each category. You can do this with budgeting software, on Quicken or Microsoft Money or on a ledger sheet/Excel. You should have an estimate of what you have in each category at all times. This will help to prevent you from overspending. If you sit down for a few minutes each day you will find that you spend less time then you would if you put it all off until the end.

# Build in your savings and investments

- Now it's time to budget money for your financial goals. Do you want to have an emergency fund? Retirement investments? Vacation savings? Make a list of what you hope to achieve, and then survey your budget once more to find the money that you need to reach those goals. If you have a lot of debt, you may need to skip this step for a while, and that's okay - debt reduction should be priority one.

# Put your budget to work

- Once you've created a budget that covers all of your monthly expenses and financial goals, it's time to put your budget to the test. Try to live within your budget, and see how it feels.
- Be honest about your spending habits, and you'll end up with a much more realistic budget.
- Don't forget to budget for fun; budgeting isn't about total deprivation.
- Don't be afraid to change your budget; a good budget is always evolving.



# Evaluate your budget and adjust as needed

- You can make adjustments easily throughout the month. You may have an emergency car repair. You can move money from your clothing category to help cover the cost of the repair. As you move money around make sure that you do so in your budget.
- After you have followed your budget for a month you may find that you can cut back in a few areas, while you need more money in others. You should keep tweaking your budget until it works for you. You can evaluate at the end of every month and make changes according to the expenses in the upcoming month as well.
- For additional tips visit:  
<http://money.cnn.com/magazines/moneymag/money101/index.html>

# Take control of your money

- Budgeting lies at the foundation of every financial plan. It doesn't matter if you're living paycheck to paycheck or earning six-figures a year, you need to know where your money is going if you want to have a handle on your finances. Unlike what you might believe, budgeting isn't all about restricting what you spend money on and cutting out all the fun in your life. It's really about understanding how much money you have, where it goes, and then planning how to best allocate those funds. Here's everything you need to help you create and maintain a budget.
- When you create a budget, you take control of your money so that it doesn't control you. Don't let the negative image of a budget making your life miserable keep you from taking control. You can still enjoy yourself and even include discretionary or "fun money" in your budget. The goal is to simply create an outline for your money that puts you in control so that it doesn't control you.



# Sample Budget

**Monthly Budget**

For: \_\_\_\_\_ Date: \_\_\_\_\_

**EXPENSES**

**HOUSEHOLD**

Rent/Mortgage \$ \_\_\_\_\_

Utilities (electric, gas, trash, water) \$ \_\_\_\_\_

Cable/Satellite TV and Internet \$ \_\_\_\_\_

Telephone and Long Distance \$ \_\_\_\_\_

Cell Phone \$ \_\_\_\_\_

Other Household Expenses \$ \_\_\_\_\_

**TOTAL** \$ \_\_\_\_\_

**FOOD**

Groceries \$ \_\_\_\_\_

Lunches and Snacks \$ \_\_\_\_\_

Eating Out \$ \_\_\_\_\_

**TOTAL** \$ \_\_\_\_\_

**TRANSPORTATION**

Car Payment \$ \_\_\_\_\_

Insurance \$ \_\_\_\_\_

Gasoline \$ \_\_\_\_\_

Maintenance and Repairs \$ \_\_\_\_\_

Public Transportation \$ \_\_\_\_\_

Other (parking, tolls) \$ \_\_\_\_\_

**TOTAL** \$ \_\_\_\_\_

**HEALTHCARE**

Doctor \$ \_\_\_\_\_

Dentist \$ \_\_\_\_\_

Prescriptions \$ \_\_\_\_\_

Medical Insurance \$ \_\_\_\_\_

Other Healthcare Expenses \$ \_\_\_\_\_

**TOTAL** \$ \_\_\_\_\_

**INCOME**

Take Home Pay \$ \_\_\_\_\_

Allowance \$ \_\_\_\_\_

Gifts \$ \_\_\_\_\_

Part-time Jobs and Chores \$ \_\_\_\_\_

Other Sources \$ \_\_\_\_\_

**TOTAL** \$ \_\_\_\_\_

**LOOKING GOOD**

Clothes and Shoes \$ \_\_\_\_\_

Toiletries \$ \_\_\_\_\_

Laundry and Cleaners \$ \_\_\_\_\_

Hair Care \$ \_\_\_\_\_

Other Looking Good Expenses \$ \_\_\_\_\_

**TOTAL** \$ \_\_\_\_\_

**JUST FOR FUN**

Movies/Games/Concerts \$ \_\_\_\_\_

Dates/Trips \$ \_\_\_\_\_

Music Purchases \$ \_\_\_\_\_

Books/Magazines/Newspaper \$ \_\_\_\_\_

Hobbies \$ \_\_\_\_\_

Other \$ \_\_\_\_\_

**TOTAL** \$ \_\_\_\_\_

**MISCELLANEOUS**

Credit Card \$ \_\_\_\_\_

Savings and Investments \$ \_\_\_\_\_

Education (tuition, books, fees) \$ \_\_\_\_\_

Gifts and Charity \$ \_\_\_\_\_

Pets \$ \_\_\_\_\_

**TOTAL** \$ \_\_\_\_\_

**GRAND TOTAL**

**TOTAL ALL INCOME** \$ \_\_\_\_\_

Subtract \_\_\_\_\_

**TOTAL ALL EXPENSES** \$ \_\_\_\_\_

**BOTTOM LINE** \$ \_\_\_\_\_

• Divide annual income and expenses by 12 to get a monthly figure.

• Some expenses (like utilities) will change throughout the year, so use a monthly average.

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*Variable expenses tend to fluctuate each month.*

**TRUE** or FALSE?



# *What is a budget?*

- A. A bad word
- B. A way to deprive yourself
- C. A money plan
- D. An illness
- E. All of the above





*Match the device to what it measures:*

